

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name County of Luce, Michigan		County Luce
Audit Date 12/31/05	Opinion Date 4/21/06	Date Accountant Report Submitted to State: 6/28/06		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature 		Date 6/28/06	

COUNTY OF LUCE, MICHIGAN

BASIC FINANCIAL STATEMENTS

December 31, 2005

LUCE COUNTY, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

CHAIR PERSON	TERRY STARK
VICE CHAIR PERSON	PHYLLIS FRENCH
COMMISSIONER	DENNIS ROBINSON
COMMISSIONER	RICHARD PRICE
COMMISSIONER	NANCY MORRISON

APPOINTED/ELECTED OFFICIALS

COUNTY TREASURER	DEBORAH JOHNSON
COUNTY CLERK	KATHY MAHAR

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Members of the Board
County of Luce, Michigan
Newberry, Michigan 49868

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the County of Luce, Michigan as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Helen Newberry Joy Hospital which represents 60% and 69% of the assets and revenues and the Luce County Road Commission which represents 22% and 9%, of the assets and revenues, respectively, of the Discretely Presented Component Units for the County of Luce, Michigan. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it related to the amounts recorded for the Helen Newberry Joy Hospital and the Luce County Road Commission is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our report and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the County of Luce, Michigan as of the year ended December 31, 2005, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2006, on our consideration of the County of Luce's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparisons as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Luce, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of the County of Luce. The accompanying schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 21, 2006

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

Luce County is the 14th largest county in Michigan in total acreage but 2nd to the last in taxable value due to the fact that well over 50% of the land is State owned, Commercial Forest property, or tax exempt. The County still has to provide law enforcement and rescue services to the entire county which presents quite a challenge to the Board of Commissioners.

The 2005 General Fund revenues increased by about \$71,749 from 2004 mainly due to an increase in property taxes, probation fees, real estate transfer tax, interest earned, and an operating transfer from the Delinquent Tax Revolving Fund.

In a condensed format, the table below shows the net assets of Luce County.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 3,907,378	\$ 3,681,446	\$ 563,737	\$ 520,854	\$ 4,471,115	\$ 4,202,300
Capital Assets	<u>3,259,643</u>	<u>2,877,533</u>	-	-	<u>3,259,643</u>	<u>2,877,533</u>
Total Assets	<u>7,167,021</u>	<u>6,558,979</u>	<u>563,737</u>	<u>520,854</u>	<u>7,730,758</u>	<u>7,079,833</u>
Current Liabilities	1,747,893	1,922,524	180,922	160,070	1,928,815	2,082,594
Noncurrent Liabilities	<u>681,409</u>	<u>917,959</u>	-	-	<u>681,409</u>	<u>917,959</u>
Total Liabilities	<u>2,429,302</u>	<u>2,840,483</u>	<u>180,922</u>	<u>160,070</u>	<u>2,610,224</u>	<u>3,000,553</u>
Net Assets						
Invested in Capital Assets -						
Net of Debt	2,348,704	1,784,978	-	-	2,348,704	1,784,978
Reserved for Debt	592,309	463,600	-	-	592,309	463,600
Reserved for Revenue Sharing	359,954	-	-	-	359,954	-
Unrestricted	<u>1,436,752</u>	<u>1,469,918</u>	<u>382,815</u>	<u>360,784</u>	<u>1,819,567</u>	<u>1,830,702</u>
Total Net Assets	<u>\$ 4,737,719</u>	<u>\$ 3,718,496</u>	<u>\$ 382,815</u>	<u>\$ 360,784</u>	<u>\$ 5,120,534</u>	<u>\$ 4,079,280</u>

The current level of unrestricted net assets for our governmental activities stands at \$1,436,752, or about 45% of expenditures. This is within the targeted range set by the County Board of Commissioners during its last budget process.

Net Assets of the governmental activities increased approximately 27.4%. Net Assets of the business – type activities increased approximately 6.1%.

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues						
Charges for Services	\$ 780,405	\$ 766,743	\$ 119,986	\$ 84,378	\$ 900,391	\$ 851,121
Operating Grants and Contributions	666,972	577,062	910	3,292	667,882	580,354
Capital Grants and Contributions	455,974	145,350	-	-	455,974	145,350
General Revenues						
Property Taxes	2,160,430	2,065,540	-	-	2,160,430	2,065,540
State-Shared Revenues	-	39,057	-	-	-	39,057
Unrestricted Investment Earnings	61,381	22,395	6,326	4,516	67,707	26,911
Transfers and Other Revenue	<u>88,702</u>	<u>118,153</u>	<u>(3,285)</u>	<u>62,282</u>	<u>85,417</u>	<u>180,435</u>
Total Revenues	<u>4,213,864</u>	<u>3,734,300</u>	<u>123,937</u>	<u>154,468</u>	<u>4,337,801</u>	<u>3,888,768</u>
Program Expenses						
Legislative	58,128	46,640	-	-	58,128	46,640
Judicial	511,190	491,171	-	-	511,190	491,171
General Government	727,091	738,941	-	-	727,091	738,941
Public Safety	642,567	564,817	-	-	642,567	564,817
Public Works	304,976	209,181	-	-	304,976	209,181
Health and Welfare	304,729	399,334	-	-	304,729	399,334
Community Economic Development	79,010	-	-	-	79,010	-
Recreation and Culture	132,344	153,511	-	-	132,344	153,511
Interest Expense – Unallocated	-	89,298	-	-	-	89,298
Other Expenses	434,606	264,961	-	-	434,606	264,961
Tax Collection	-	-	16,442	12,629	16,442	12,629
Other	<u>-</u>	<u>-</u>	<u>85,464</u>	<u>92,607</u>	<u>85,464</u>	<u>92,607</u>
Total Expenses	<u>3,194,641</u>	<u>2,957,854</u>	<u>101,906</u>	<u>105,236</u>	<u>3,296,547</u>	<u>3,063,090</u>
Changes in Net Assets	1,019,223	776,446	22,031	49,232	1,041,254	825,678
Beginning Net Assets	3,718,496	2,805,353	360,784	311,552	4,079,280	3,116,905
Prior Period Adjustment	<u>-</u>	<u>136,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,697</u>
Ending Net Assets	<u>\$ 4,737,719</u>	<u>\$ 3,718,496</u>	<u>\$ 382,815</u>	<u>\$ 360,784</u>	<u>\$ 5,120,534</u>	<u>\$ 4,079,280</u>

Governmental Activities

Revenue from property taxes increased 4.6% from the previous year gaining, \$94,890. Average gain from property taxes over the previous five years was \$178,393 per year. State Revenue Sharing decreased proportionally to the County for the year due to the executive order of the Governor.

Business-Type Activities

The County business-type activities are multi-faceted. They range from Tax Collection, Building Department, Abstract, and Fair Board. The Tax Collection funds significantly support the General and Special Revenue Funds.

The County's Funds

Our analysis of the County's major funds begins on page 9 following the entity wide financial statements. The individual fund financial statements provide detail information about the most significant funds, not the County as a whole. The County Board of Commissioners creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2005 include the General Fund, Ambulance, Hospital Bond Debt Service, and the Tax Revolving Reserve Fund.

The General Fund supports most of the County's governmental services. The costliest are the police, court, and law enforcement functions. The Tax Revolving Reserve Fund is supported by interest and fees from the collection of taxes.

Component Units of the County include: Luce County Road Commission, Luce-Mackinac-Alger-Schoolcraft (LMAS) District Health Department, Luce County Housing Commission, Luce County Economic Development Corporation, and Helen Newberry Joy Hospital. Financial information for these component units are reported separately from the financial information presented for the primary government itself. Separately issued reports can be obtained from component unit's office as stated in Note 1.

General Fund Budgetary Highlights

Prior to the beginning of any year, the Board of Commissioners budget is compiled based upon certain assumptions and facts available at that time. During the year, the Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, the Board reviews and authorizes large expenditures when requested throughout the year.

Major changes to the original revenue budget were due to an increase in probation fees, real estate transfer tax (due to a covenant deed between Heartwood Forestland and the Nature conservancy), interest earned, and an operating transfer from the Delinquent Tax Revolving Fund. There was also a reimbursement to the General Fund from the Emergency Management Fund for installation of security cameras in the Court House.

Major increases to the original expense budget were due to the District Judge starting to take hospitalization, jail costs being higher, and security cameras put in the building, and an operating transfer to the Friend of the Court Fund.

Other Funds

The only new fund created in 2005 was for the Marine Safety Grant which did not come through in 2005 and so was not used.

The DTR 622 Fund for 1999 taxes and DTR 623 fund for 2000 taxes were deleted in 2005.

Capital Asset and Debt Administration

During the 2005 period, the County invested \$3,259,643 in capital assets that met the dollar threshold of the reporting requirement. These purchases included the County Park pavilion, Airport runway lighting, a digital copier, and a snowmobile (which was actually purchased in November 2004 but paid for in January 2005). The old copier (which had been valued at \$8,676) was disposed from fixed assets.

The County reduced its bond debt load by \$623,779 in principal payments in 2005, ending with a debt balance of \$1,009,872. \$350,670 was for payments on delinquent taxes with the balance being put toward bonds for the DPW Sewer, Parks and Recreation, General Obligation Bonds and Capital Development Bonds.

Economic Factors and Next Year's Budgets and Rates

The County is in a budget battle from year to year. The cap on the growth rate under the Headlee Amendment, the voters reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all major funds, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

The local economy is heavily dependent on the Newberry Correctional Facility which employees 340 workers in Luce County. If the facility was to close it would have a tremendous negative impact on the local economy.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Clerk's Office at (906) 293-5521.

Basic Financial Statements

County of Luce, Michigan

Statement of Net Assets December 31, 2005

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
ASSETS:				
Current Assets:				
Cash & Investments - Unrestricted	\$ 1,201,027	\$ 340,195	\$ 1,541,222	\$ 4,077,619
- Restricted	592,309	-	592,309	1,237,762
Receivables:				
Accounts	389,512	-	389,512	3,702,430
Taxes	1,599,756	197,703	1,797,459	-
Interest	-	29,813	29,813	-
Loans	-	-	-	1,622,442
Internal Loans	3,974	(3,974)	-	-
Due from Governmental Units	75,692	-	75,692	150,842
Inventories	14,056	-	14,056	710,236
Prepaid Expenses	31,052	-	31,052	419,603
Other Assets	-	-	-	1,556,845
Non-Current Assets:				
Capital Assets Not Depreciated	1,595,595	-	1,595,595	156,891
Capital Assets (Net of Accumulated Depreciation)	1,664,048	-	1,664,048	16,401,062
TOTAL ASSETS	\$ 7,167,021	\$ 563,737	\$ 7,730,758	\$ 30,035,732
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 77,693	\$ 37	\$ 77,730	\$ 721,653
Accrued Liabilities	41,618	719	42,337	1,332,347
Accrued Interest Payable	16,844	-	16,844	-
Due to Governmental Units	-	-	-	768
Deferred Revenue	1,305,105	-	1,305,105	213,159
Other Liabilities	388	-	388	99,699
Notes Payable	7,151	180,166	187,317	556,586
Bonds Payable	275,000	-	275,000	115,000
Capital Leases Payable	24,094	-	24,094	5,041
Non-Current Liabilities:				
Advances	-	-	-	146,286
Notes Payable	39,555	-	39,555	5,843,066
Bonds Payable	508,000	-	508,000	245,000
Capital Leases Payable	40,295	-	40,295	-
Compensated Absences	93,559	-	93,559	471,564
TOTAL LIABILITIES	2,429,302	180,922	2,610,224	9,750,169
NET ASSETS:				
Invested in Capital Assets (net of related debt)	2,348,704	-	2,348,704	9,971,460
Restricted for County Road	-	-	-	939,806
Restricted for Debt Service	592,309	-	592,309	-
Restricted for Revenue Sharing	359,954	-	359,954	-
Restricted by Donors	-	-	-	106,613
Unrestricted	1,436,752	382,815	1,819,567	9,267,684
TOTAL NET ASSETS	\$ 4,737,719	\$ 382,815	\$ 5,120,534	\$ 20,285,563

See accompanying notes to financial statements.

County of Luce, Michigan

Statement of Activities For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 58,128	\$ -	\$ -	\$ -	\$ (58,128)	\$ -	\$ (58,128)	\$ -
Judicial	511,190	135,994	216,274	-	(158,922)	-	(158,922)	-
General Government	727,091	107,670	50,250	-	(569,171)	-	(569,171)	-
Public Safety	642,567	135,187	164,757	73,383	(269,240)	-	(269,240)	-
Public Works	304,976	34,901	150,794	382,591	263,310	-	263,310	-
Health & Welfare	304,729	319,942	4,356	-	19,569	-	19,569	-
Community/Economic Development	79,010	7,226	70,812	-	(972)	-	(972)	-
Recreation and Culture	132,344	39,485	9,729	-	(83,130)	-	(83,130)	-
Other	434,606	-	-	-	(434,606)	-	(434,606)	-
Total Governmental Activities	3,194,641	780,405	666,972	455,974	(1,291,290)	-	(1,291,290)	-
Business-type activities:								
Tax Collection	16,442	77,493	-	-	-	61,051	61,051	-
Other	85,464	42,493	910	-	-	(42,061)	(42,061)	-
Total Business-type Activities	101,906	119,986	910	-	-	18,990	18,990	-
Total Primary Government	\$ 3,296,547	\$ 900,391	\$ 667,882	\$ 455,974	(1,291,290)	18,990	(1,272,300)	-
Component Units:								
Road Commission	\$ 2,910,828	\$ 710,894	\$ 1,800,632	\$ 269,570				(129,732)
LMAS District Health Department	6,421,804	4,117,996	1,637,621	-				(666,187)
Economic Development	379,779	230,687	5,000	-				(144,092)
Housing Commission	609,864	114,762	474,835	-				(20,267)
Helen Newberry Joy Hospital	22,618,659	22,550,634	-	-				(68,025)
Total Component Units	32,940,934	27,724,973	3,918,088	269,570				(1,028,303)
Total	\$ 36,237,481	\$ 28,625,364	\$ 4,585,970	\$ 725,544				
General Revenues:								
Taxes					2,160,430	-	2,160,430	-
Local Sources and Other					56,636	28,781	85,417	494,637
Investment Earnings (Loss)					61,381	6,326	67,707	145,285
Gain on Equipment Disposal					-	-	-	36,312
Transfers					32,066	(32,066)	-	-
Total General Revenues and Transfers					2,310,513	3,041	2,313,554	676,234
Changes in Net Assets					1,019,223	22,031	1,041,254	(352,069)
Net Assets - Beginning					3,718,496	360,784	4,079,280	20,637,632
Net Assets - Ending					\$ 4,737,719	\$ 382,815	\$ 5,120,534	\$ 20,285,563

See accompanying notes to financial statements.

County of Luce, Michigan

Balance Sheet Governmental Funds December 31, 2005

	General	Ambulance	Revenue Sharing Reserve	Airport	Hospital Bond Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:							
Cash & Investments - Unrestricted	\$ 310,091	\$ 367,420	\$ 182,335	\$ 140	\$ -	\$ 341,041	\$ 1,201,027
- Restricted	-	-	-	-	592,309	-	592,309
Receivables:							
Accounts	47,128	308,888	-	-	-	33,496	389,512
Taxes	593,244	147,759	271,250	73,119	307,288	207,096	1,599,756
Due from Other Funds	144,134	-	-	-	-	2,599	146,733
Due from Governmental Units	-	-	-	-	-	75,692	75,692
Inventories	-	-	-	14,056	-	-	14,056
Prepaid Expenses	31,052	-	-	-	-	-	31,052
TOTAL ASSETS	\$ 1,125,649	\$ 824,067	\$ 453,585	\$ 87,315	\$ 899,597	\$ 659,924	\$ 4,050,137
LIABILITIES:							
Due to Other Funds	\$ -	\$ -	\$ 93,631	5,000	\$ -	\$ 44,128	\$ 142,759
Accounts Payable	18,822	-	-	531	-	58,340	77,693
Accrued Liabilities	27,974	7,104	-	867	-	5,673	41,618
Other Liabilities	-	-	-	388	-	-	388
Deferred Revenue	567,741	147,759	-	73,119	307,288	209,198	1,305,105
TOTAL LIABILITIES	614,537	154,863	93,631	79,905	307,288	317,339	1,567,563
FUND BALANCES:							
Reserved	-	-	359,954	-	592,309	-	952,263
Unreserved							
Designated for Special Purposes	-	-	-	-	-	39,250	39,250
Undesignated	511,112	669,204	-	7,410	-	303,335	1,491,061
TOTAL FUND BALANCES	511,112	669,204	359,954	7,410	592,309	342,585	2,482,574
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,125,649	\$ 824,067	\$ 453,585	\$ 87,315	\$ 899,597	\$ 659,924	
Reconciliation to amounts reported for governmental activities in the statement of net assets:							
Capital assets used by governmental activities							3,259,643
Long-term notes & leases payable for governmental activities							(894,095)
Compensated absences liability							(93,559)
Accrued interest payable							(16,844)
Net assets of governmental activities							\$ 4,737,719

County of Luce, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2005

	General	Ambulance	Revenue Sharing Reserve	Airport	Hospital Bond Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:							
Taxes	\$ 1,157,573	\$ 144,357	\$ 271,250	\$ 73,778	\$ 304,515	\$ 208,957	\$ 2,160,430
Licenses & Permits	12,234	-	-	-	-	1,600	13,834
Federal Sources	114,439	-	-	313,921	-	163,256	591,616
State Sources	110,690	-	-	68,670	-	270,290	449,650
Local Sources	20,323	95	-	46	193	61,023	81,680
Charges for Services	265,111	317,562	-	34,901	-	148,997	766,571
Interest & Rentals	27,409	8,569	-	1,635	17,941	9,002	64,556
Fines and Forfeitures	5,530	-	-	-	-	2,000	7,530
Other Revenue	19,789	9,536	-	2,288	-	14,318	45,931
TOTAL REVENUES	1,733,098	480,119	271,250	495,239	322,649	879,443	4,181,798
EXPENDITURES:							
Legislative	58,128	-	-	-	-	-	58,128
Judicial	485,636	-	-	-	-	22,428	508,064
General Government	626,828	-	-	-	-	87,100	713,928
Public Safety	440,130	-	-	-	-	249,775	689,905
Public Works	-	-	-	494,573	-	116,712	611,285
Health & Welfare	7,473	256,661	-	-	-	80,828	344,962
Community/Economic Development	-	-	-	-	-	77,312	77,312
Recreation & Cultural	-	-	-	-	-	115,848	115,848
Capital Outlay	-	124,466	-	11,526	-	108,791	244,783
Debt Service	-	-	-	-	193,940	123,807	317,747
Other Expenditures	189,823	-	-	-	-	-	189,823
TOTAL EXPENDITURES	1,808,018	381,127	-	506,099	193,940	982,601	3,871,785
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(74,920)	98,992	271,250	(10,860)	128,709	(103,158)	310,013
OTHER FINANCING SOURCES (USES):							
Note/Lease Proceeds	78,369	-	-	-	-	-	78,369
Operating Transfers In	163,126	-	-	-	-	166,899	330,025
Operating Transfers Out	(88,949)	(67,349)	(112,061)	-	-	(29,600)	(297,959)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	77,626	31,643	159,189	(10,860)	128,709	34,141	420,448
FUND BALANCES, JANUARY 1	433,486	637,561	200,765	18,270	463,600	308,444	2,062,126
FUND BALANCES, DECEMBER 31	\$ 511,112	\$ 669,204	\$ 359,954	\$ 7,410	\$ 592,309	\$ 342,585	\$ 2,482,574

County of Luce, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2005

Net Changes in fund balances - total governmental funds	\$ 420,448
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$638,235 exceeded depreciation (\$256,125) in the current period.	382,110
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Governmental Funds report Lease Proceeds as other financing sources and repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Lease Proceeds	(78,369)
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Principal repayments:	
Bonds & Notes Payable	273,109
Capital Leases	28,357

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated Absences	(11,834)
Accrued Interest Expense	5,402

Changes in net assets of governmental activities	<u>\$ 1,019,223</u>
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Statement of Net Assets
Proprietary Funds
December 31, 2005

	Enterprise Funds			Totals
	2004 Tax Revolving	Tax Revolving Reserve	Nonmajor Enterprise Funds	
ASSETS:				
Cash & Investments	\$ 31,601	\$ 161,236	\$ 147,358	\$ 340,195
Taxes Receivable	167,587	6,451	23,665	197,703
Accrued Interest Receivable	16,759	3,660	9,394	29,813
 TOTAL ASSETS	 \$ 215,947	 \$ 171,347	 \$ 180,417	 \$ 567,711
LIABILITIES:				
Due to Other Funds	\$ 315	\$ -	\$ 3,659	\$ 3,974
Accounts Payable	-	-	37	37
Accrued Liabilities	-	120	599	719
Notes Payable	180,166	-	-	180,166
 TOTAL LIABILITIES	 180,481	 120	 4,295	 184,896
NET ASSETS:				
Unrestricted	35,466	171,227	176,122	382,815
 TOTAL NET ASSETS	 \$ 215,947	 \$ 171,347	 \$ 176,122	 \$ 382,815

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended December 31, 2005**

	Enterprise Funds			
	2004 Tax Revolving	Tax Revolving Reserve	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES:				
Charges for Services	\$ 16,204	\$ 24	\$ 54,551	\$ 70,779
State Sources	-	-	910	910
Interest & Rentals	33,247	-	15,960	49,207
Other Revenue	-	-	28,781	28,781
Total Operating Revenues	49,451	24	100,202	149,677
OPERATING EXPENSES:				
General and Administrative	13,985	139	86,371	100,495
Total Operating Expenses	13,985	139	86,371	100,495
OPERATING INCOME (LOSS)	35,466	(115)	13,831	49,182
NON-OPERATING REVENUES (EXPENSES):				
Interest on Deposits	-	4,857	1,469	6,326
Interest Expense	-	-	(1,411)	(1,411)
Total Non-operating Revenues (Expenses)	-	4,857	58	4,915
INCOME (LOSS) BEFORE TRANSFERS	35,466	4,742	13,889	54,097
Operating Transfers In	-	-	485	485
Operating Transfers Out	-	(32,551)	-	(32,551)
CHANGES IN NET ASSETS	35,466	(27,809)	14,374	22,031
NET ASSETS, JANUARY 1	-	199,036	161,748	360,784
NET ASSETS, DECEMBER 31	<u>\$ 35,466</u>	<u>\$ 171,227</u>	<u>\$ 176,122</u>	<u>\$ 382,815</u>

Statement of Cash Flows Proprietary Fund Types For the Year Ended December 31, 2005

	Enterprise Funds			
	2004 Tax Revolving	Tax Revolving Reserve	Nonmajor Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 366,640	\$ 29	\$ 261,572	\$ 628,241
Payments to Suppliers	(515,205)	(169)	(87,067)	(602,441)
Internal Activity - Payments to Other Funds	-	-	908	908
Net Cash Provided (Used) by Operating Activities	(148,565)	(140)	175,413	26,708
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from Notes	375,000	-	-	375,000
Principal Payments	(194,834)	-	(155,836)	(350,670)
Interest Expense	-	-	(1,411)	(1,411)
Net Cash Provided (Used) by Capital and Related Financing Activities	180,166	-	(157,247)	22,919
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:				
Operating Transfers In	-	-	485	485
Operating Transfers Out	-	(32,551)	-	(32,551)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	(32,551)	485	(32,066)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Income	-	4,857	1,469	6,326
Net Cash Provided (Used) by Investing Activities	-	4,857	1,469	6,326
Net Increase (Decrease) in Cash and Cash Equivalents	31,601	(27,834)	20,120	23,887
Balances - Beginning of the Year	-	189,070	127,238	316,308
Balances - End of the Year	\$ 31,601	\$ 161,236	\$ 147,358	\$ 340,195
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 35,466	(115)	\$ 13,831	\$ 49,182
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities.				
Change in Assets and Liabilities:				
Taxes Receivable	(167,587)	5	149,315	(18,267)
Accrued Interest Receivable	(16,759)	-	12,055	(4,704)
Accounts Payable	-	-	(137)	(137)
Accrued Liabilities	-	(30)	-	(30)
Due to Other Governmental Units	315	-	349	664
Net Cash Provided (Used) by Operating Activities	\$ (148,565)	\$ (140)	\$ 175,413	\$ 26,708

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	<u>Agency Funds</u>
ASSETS:	
Cash & Investments - Unrestricted	\$ 400,521
Receivables:	
Accounts	20,159
Due to Other Governmental Units	<u>11,423</u>
 TOTAL ASSETS	 <u><u>\$ 432,103</u></u>
 LIABILITIES:	
Accounts Payable	\$ 155
Due to Other Governmental Units	60,935
Accrued Liabilities	1,542
Undistributed Tax Collections	328,465
Undistributed Receipts	<u>41,006</u>
 TOTAL LIABILITIES	 <u><u>\$ 432,103</u></u>

Component Unit Financial Statements

County of Luce, Michigan

Statement of Net Assets Component Units December 31, 2005

	Road Commission	LMAS Dist. Health Dept.	Economic Development Corporation	Housing Commission	Helen Newberry Joy Hospital	Totals
ASSETS:						
Current Assets:						
Cash & Investments - Unrestricted	\$ 900,710	\$ 785,034	\$ 559,505	\$ 124,533	\$ 1,707,837	\$ 4,077,619
- Restricted	-	-	30,000	-	1,207,762	1,237,762
Receivables:						
Accounts	332,498	946,836	-	134	2,422,962	3,702,430
Loans	-	-	1,622,442	-	-	1,622,442
Due from Other Governmental Units	-	150,842	-	-	-	150,842
Inventory	275,315	-	-	735	434,186	710,236
Prepaid Expense	56,157	14,779	-	4,984	343,683	419,603
Other Assets	-	-	-	-	1,556,845	1,556,845
Non-Current Assets:						
Capital Assets (not depreciated)	156,891	-	-	-	-	156,891
Capital Assets (net of accumulated depreciation)	4,843,573	131,680	615,510	595,428	10,214,871	16,401,062
TOTAL ASSETS	\$ 6,565,144	\$ 2,029,171	\$ 2,827,457	\$ 725,814	\$ 17,888,146	\$ 30,035,732
LIABILITIES:						
Current Liabilities:						
Accounts Payable	\$ 669	\$ 116,966	\$ 6,139	\$ 5,592	\$ 592,287	\$ 721,653
Due to Governmental Units	768	-	-	-	-	768
Accrued Liabilities	60,616	116,246	-	23,867	1,131,618	1,332,347
Deferred Revenue	201,783	11,376	-	-	-	213,159
ACH Payables	-	80,590	-	-	-	80,590
Other Liabilities	902	18,207	-	-	-	19,109
Notes Payable	-	-	19,800	-	536,786	556,586
Leases Payable	-	5,041	-	-	-	5,041
Bonds Payable	-	-	-	115,000	-	115,000
Non-Current Liabilities:						
Advances	146,286	-	-	-	-	146,286
Notes Payable	-	-	158,400	-	5,684,666	5,843,066
Bonds Payable	-	-	-	245,000	-	245,000
Compensated Absences	213,850	251,221	-	6,493	-	471,564
TOTAL LIABILITIES	624,874	599,647	184,339	395,952	7,945,357	9,750,169
NET ASSETS:						
Invested in Capital Assets, net of related debt	5,000,464	126,639	615,510	235,428	3,993,419	9,971,460
Restricted for County Road	939,806	-	-	-	-	939,806
Restricted by Donors	-	-	-	-	106,613	106,613
Unrestricted	-	1,302,885	2,027,608	94,434	5,842,757	9,267,684
TOTAL NET ASSETS	5,940,270	1,429,524	2,643,118	329,862	9,942,789	20,285,563
TOTAL LIABILITIES AND NET ASSETS	\$ 6,565,144	\$ 2,029,171	\$ 2,827,457	\$ 725,814	\$ 17,888,146	\$ 30,035,732

County of Luce, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	LMAS District Health Department	Economic Development Corporation	Housing Commission	Helen Newberry Joy Hospital	
Road Commission:										
Public Works	\$ 2,910,828	\$ 710,894	\$ 1,800,632	\$ 269,570	\$ (129,732)	\$ -	\$ -	\$ -	\$ -	\$ (129,732)
LMAS District Health Dept.:										
Health & Welfare	6,421,804	4,117,996	1,637,621	-	-	(666,187)	-	-	-	(666,187)
Economic Development Corporation:										
Economic Development	379,779	230,687	5,000	-	-	-	(144,092)	-	-	(144,092)
Housing Commission:										
Public Housing	609,864	114,762	474,835	-	-	-	-	(20,267)	-	(20,267)
Helen Newberry Joy Hospital:										
Health & Welfare	22,618,659	22,550,634	-	-	-	-	-	-	(68,025)	(68,025)
Total Component Units	<u>\$ 32,940,934</u>	<u>\$ 27,724,973</u>	<u>\$ 3,918,088</u>	<u>\$ 269,570</u>	<u>(129,732)</u>	<u>(666,187)</u>	<u>(144,092)</u>	<u>(20,267)</u>	<u>(68,025)</u>	<u>(1,028,303)</u>
General Revenues:										
Investment Earnings					24,674	13,951	17,590	3,667	85,403	145,285
Gain on Equipment Disposal					36,312	-	-	-	-	36,312
Other					-	435,229	55,444	3,964	-	494,637
Total General Revenues					<u>60,986</u>	<u>449,180</u>	<u>73,034</u>	<u>7,631</u>	<u>85,403</u>	<u>676,234</u>
Change in Net Assets					(68,746)	(217,007)	(71,058)	(12,636)	17,378	(352,069)
Net Assets - Beginning					<u>6,009,016</u>	<u>1,646,531</u>	<u>2,714,176</u>	<u>342,498</u>	<u>9,925,411</u>	<u>20,637,632</u>
Net Assets - Ending					<u>\$ 5,940,270</u>	<u>\$ 1,429,524</u>	<u>\$ 2,643,118</u>	<u>\$ 329,862</u>	<u>\$ 9,942,789</u>	<u>\$ 20,285,563</u>

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Luce, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:

Financial Reporting Entity

The County of Luce was incorporated under the laws of the State of Michigan in 1887 and operates under an elected Commission form of government and provides services to its more than 7,024 residents in many areas including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and culture. As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the County of Luce (primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Component Units:

The County of Luce has considered all potential units in evaluating how to define the County for financial reporting purposes. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Statement No. 14 of the Government Accounting Standards Board (GASB), The Financial Reporting Entity. The basic criteria include the appointment of a voting majority of the governing board of the unit; legal separation of the County and the component unit, fiscal independence of the unit, whether exclusion of the unit would make the County's financial statements misleading, and whether there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

These funds are included in the Primary Government financial statements. The County of Luce reports no funds that qualify as blended component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Units

The component units column in the government-wide financial statements include the financial data of the other component units of the County. The following is a summary of the component units:

Luce County Road Commission - The members of the governing board of the Road Commission are appointed by the County Commission. Although the County does not have the authority to approve or modify the Road Commission's operational and capital budgets, bonded debt must be approved by the County Commission.

Luce County Road Commission
P.O. Box 401
Newberry, MI 49868

Luce-Mackinac-Alger-Schoolcraft (LMAS) District Health Department - The members of the governing body of the LMAS District Health Department are jointly appointed by the Luce, Mackinac, Alger, and Schoolcraft Counties' Commissions. The Health Department's operational and capital budgets are not subject to approval or modification by any governmental entity, and it establishes fees for various services and other activities. The Health Department financial statement disclosures contained herein are presented as of and for the year ended September 30, 2005.

Separate audited financial statements with disclosures may be obtained from the administrative office at the following address:

LMAS District Health Department
P.O. Box 398
Newberry, MI 49868

Luce County Housing Commission - The Commission is a legally separate entity whose five-member board is appointed by the County of Luce Commission. The Housing Commission provides subsidized housing financial assistance to lower income families.

Separate audited financial statements with disclosures may be obtained from the administrative office at the following address:

Luce County Housing Commission
550 W. Victory
Newberry, MI 49868

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Luce County Economic Development Corporation - The Corporation is a legally separate non-profit corporation whose primary purpose is to promote economic development in the County of Luce. The nine-member board of the County of Luce Economic Development Corporation is appointed by the County of Luce's Board of Commissioners.

Helen Newberry Joy Hospital - The Hospital was organized under Public Act 230 of the Public Acts of 1987 and is a county hospital corporation. The Hospital provides inpatient, outpatient, and long-term care services primarily to the citizens of the County of Luce.

Separate audited financial statements with disclosures may be obtained from the administrative office at the following address:

Helen Newberry Joy Hospital
502 W. Harrie Street
Newberry, MI 49868

Condensed Financial Statements

The financial statements present condensed financial statements of each of the five discretely presented component units.

Jointly Governed Organization

Joint Venture Community Health Services - Pursuant to an amendment to the Mental Health Code, Public Act 290 of 1995 the Counties of Alger, Chippewa, Marquette, Delta and Luce created a Community Mental Health Authority with powers and duties as defined in Section 205, MCL 330.1205, known as Pathways to Healthy Living. Under such provisions, Pathways to Healthy Living became a separate legal entity from the counties and has its own reporting unit. The Board consists of members of the participating counties as appointed by the respective counties. The Board has full power to comply and carry out the financial and clinical provisions of the Mental Health Code. The County appropriated \$25,000 for the Authority in 2005.

The separately issued financial statements can be obtained from the administrative office of the Board at:

Pathways to Healthy Living
200 West Spring Street
Marquette, MI 49855

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Multi-County Agency**

The County participates jointly in the operation of the Department of Human Services Agency with thirteen other Counties in the Upper Peninsula (a component unit of Delta County). All financial operations of the Agency are recorded at the Delta County location. The County appropriated \$6,000 for the Agency in 2005.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Ambulance Fund

This fund accounts for the operation of the Luce County Ambulance.

Airport Fund

This fund accounts for the operation of the Luce County Airport.

Revenue Sharing Reserve Fund

This fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

Hospital Bond – Debt Service Fund

This fund accounts for the repayments of principal and interest on Hospital Bonds.

2004 Tax Revolving

This fund accounts for the collection of 2004 delinquent taxes.

Tax Revolving Reserve

This fund accounts for the collection of delinquent taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the County reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D - Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Taxes Receivable – Current or Property Taxes

The County of Luce property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Luce as of the preceding December 31st.

Although the County of Luce 2004 ad valorem tax is levied and collectible on December 1, 2004, and 2005 ad valorem tax is levied and collectible on July 1, 2005, it is the County of Luce’s policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made “available” for the financing of operations. “Available” means collected within the current period or expected to be paid from the delinquent tax revolving funds within one year.

The December 1, 2004 taxable valuation of the County of Luce totaled \$145,403,181, on which ad valorem taxes levied consisted of 3.7310 mills for the County operating, .9484 mills for Ambulance, .4848 mills for Parks and Recreation, .4848 mills for Extension, .4035 mills for Animal Control, 2.0000 mills for Hospital Bond Debt Service, and .4848 mills for Airport Operating. These amounts are recognized in the respective General, Special Revenue, and Debt Service Fund financial statements as revenue.

The July 1, 2005 taxable valuation of the County of Luce totaled \$153,644,039, on which ad valorem taxes levied consisted of 1.8313 mills for the General Fund, this amount is recognized in the General Fund.

All other revenue items are considered to be available only when cash is received by the government.

Inventories and Prepaid Items – Inventories are valued at cost using the first in/first out (FIFO) method. The Airport fund maintains an inventory balance for fuel. The costs of all other governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method except for road equipment which uses sum-of-the-years'-digit method. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 60 years
Building Improvements	15 to 30 years
Roads	10 to 30 years
Vehicles	3 to 5 years
Equipment	3 to 10 years
Furniture and Fixtures	3 to 7 years
Land Improvements	15 to 30 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

Vested Benefits Payable – County General Employees - The County's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service.

The annual vacation benefits earned by each employee during the current year are credited to the employee at year end. Employees are required to use their vacation benefits within one year, except under special circumstances where, with the approval of the department head, some carry-over may be authorized.

The County's employment policies provide for sick leave benefits to be earned at the rate of one day per month. When employees separate from employment with the County, sheriff department employees are entitled to half of their accumulated sick time and government center employees are entitled to a maximum of 15 days.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each September, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1, the budget is legally enacted through a resolution passed by the Board of Commissioners.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continue)

- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash, Investments, and Equivalents - Unrestricted	\$ 1,201,027	\$ 340,195	\$ 1,541,222	\$ 400,521	\$ 4,077,619
Cash, Investments, and Equivalents - Restricted	<u>592,309</u>	<u>-</u>	<u>592,309</u>	<u>-</u>	<u>1,237,762</u>
Total	<u>\$ 1,793,336</u>	<u>\$ 340,195</u>	<u>\$ 2,133,531</u>	<u>\$ 400,521</u>	<u>\$ 5,315,381</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Units
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 1,542,693	\$ 400,521	\$ 4,073,851
Petty Cash and Cash on Hand	920	-	1,060
Investments	<u>589,918</u>	<u>-</u>	<u>1,240,470</u>
Total	<u>\$ 2,133,531</u>	<u>\$ 400,521</u>	<u>\$ 5,315,381</u>

	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10
Investments:					
Money Market	\$ 589,918	\$ 589,918	\$ -	\$ -	\$ -
Total Investments	<u>\$ 589,918</u>	<u>\$ 589,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Cash and Investments are restricted in the Governmental Activities in the amount of \$592,309 for payment of principal and interest on hospital bonds. Cash is restricted in the Component Units for the Helen Newberry Joy Hospital limited use.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- Repurchase agreements consisting of instruments listed in a.
- Banker's acceptance of United States banks.
- Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the County and specific funds. They are recorded in County records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial credit risk. Investment custodial credit risk, is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County's \$687,406 investments, \$687,406 are not in the name of the County, but in the name of the agent.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$1,685,210 of the County's bank balance of \$1,987,580 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,595,595	\$ -	\$ -	\$ 1,595,595
<i>Capital assets being depreciated:</i>				
Buildings	3,266,000	-	-	3,266,000
Building improvements	16,850	-	-	16,850
Equipment	754,568	62,824	103,073	714,319
Furniture and fixtures	29,934	-	-	29,934
Vehicles	649,668	183,010	18,932	813,746
Land improvements	<u>51,000</u>	<u>392,401</u>	<u>-</u>	<u>443,401</u>
Subtotal	<u>4,768,020</u>	<u>638,235</u>	<u>122,005</u>	<u>5,284,250</u>
<i>Less accumulated depreciation for:</i>				
Buildings	2,496,580	94,911	-	2,591,491
Building improvements	749	562	-	1,311
Equipment	420,707	84,773	103,073	402,407
Furniture and fixtures	29,934	-	-	29,934
Vehicles	525,795	65,939	18,932	572,802
Land improvements	<u>12,317</u>	<u>9,940</u>	<u>-</u>	<u>22,257</u>
Subtotal	<u>3,486,082</u>	<u>256,125</u>	<u>122,005</u>	<u>3,620,202</u>
Net Capital Assets Being Depreciated	<u>1,281,938</u>	<u>382,110</u>	<u>-</u>	<u>1,664,048</u>
Governmental Activity Capital Assets				
- Net of Depreciation	<u>\$ 2,877,533</u>	<u>\$ 382,110</u>	<u>\$ -</u>	<u>\$ 3,259,643</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 77,502
Public Safety	29,143
Public Works	67,347
Health and Welfare	58,984
Recreation and Culture	<u>23,149</u>
Total Governmental Activities	<u>\$ 256,125</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Capital asset activity of the Luce County Road Commission for the current year was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Adjustments/ Deductions</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 39,182	\$ -	\$ -	\$ 39,182
Land Improvements	<u>117,709</u>	<u>-</u>	<u>-</u>	<u>117,709</u>
Subtotal	<u>156,891</u>	<u>-</u>	<u>-</u>	<u>156,891</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	38,460	-	-	38,460
Buildings	940,344	-	77,860	862,484
Road Equipment	4,269,686	180,830	102,760	4,347,756
Shop Equipment	234,331	-	-	234,331
Office Equipment	44,197	-	-	44,197
Engineers' Equipment	19,390	-	-	19,390
Infrastructure - Bridge	756,552	266,868	-	1,023,420
Infrastructure - Roads	<u>3,427,320</u>	<u>1,415</u>	<u>-</u>	<u>3,428,735</u>
Subtotal	<u>9,730,280</u>	<u>449,113</u>	<u>180,620</u>	<u>9,998,773</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	13,297	1,281	-	14,578
Buildings	343,796	30,181	77,860	296,117
Road Equipment	3,768,320	225,057	102,760	3,890,617
Shop Equipment	174,266	13,023	-	187,289
Office Equipment	37,591	2,250	-	39,841
Engineers' Equipment	19,228	138	-	19,366
Infrastructure - Bridges	36,434	15,515	-	51,949
Infrastructure - Roads	<u>461,368</u>	<u>194,075</u>	<u>-</u>	<u>655,443</u>
Subtotal	<u>4,854,300</u>	<u>481,520</u>	<u>180,620</u>	<u>5,155,200</u>
Net Capital Assets Being Depreciated	<u>4,875,980</u>	<u>(32,407)</u>	<u>-</u>	<u>4,843,573</u>
Total Net Capital Assets	<u>\$ 5,032,871</u>	<u>\$ (32,407)</u>	<u>\$ -</u>	<u>\$ 5,000,464</u>

Depreciation expense was charged to the following programs:

Net equipment Expense	
Direct Equipment	\$ 225,057
Indirect Equipment	36,551
Net Administrative Expenses	
Building	8,072
Office Equipment	2,250
Infrastructure Depreciation Expense	<u>209,590</u>
Total Depreciation Expense	<u>\$ 481,520</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Capital asset activity of the Luce-Mackinac-Alger-Schoolcraft District Health Department for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Furniture and equipment	\$ 266,765	\$ -	\$ -	\$ 266,765
Building improvements	<u>138,808</u>	<u>29,827</u>	<u>-</u>	<u>168,635</u>
Subtotal	<u>405,573</u>	<u>29,827</u>	<u>-</u>	<u>435,400</u>
<i>Less accumulated depreciation for:</i>				
Furniture and equipment	222,919	26,435	-	249,354
Building improvements	<u>44,626</u>	<u>9,740</u>	<u>-</u>	<u>54,366</u>
Subtotal	<u>267,545</u>	<u>36,175</u>	<u>-</u>	<u>303,720</u>
Net Capital Assets Being Depreciated	<u>\$ 138,028</u>	<u>\$ (6,348)</u>	<u>\$ -</u>	<u>\$ 131,680</u>
Depreciation Expense:				
Health and Welfare			<u>\$ 36,175</u>	

Capital asset activity of the Economic Development Corporation for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Buildings	\$ 635,082	\$ -	\$ -	\$ 635,082
Equipment	6,600	-	-	6,600
Land improvements	<u>96,500</u>	<u>-</u>	<u>-</u>	<u>96,500</u>
Subtotal	<u>738,182</u>	<u>-</u>	<u>-</u>	<u>738,182</u>
<i>Less accumulated depreciation for:</i>				
Buildings	65,272	21,169	-	86,441
Equipment	6,600	-	-	6,600
Land improvements	<u>23,198</u>	<u>6,433</u>	<u>-</u>	<u>29,631</u>
Subtotal	<u>95,070</u>	<u>27,602</u>	<u>-</u>	<u>122,672</u>
Net Capital Assets Being Depreciated	<u>\$ 643,112</u>	<u>\$ (27,602)</u>	<u>\$ -</u>	<u>\$ 615,510</u>
Depreciation Expense:				
Economic Development Corporation			<u>\$ 27,602</u>	

NOTE 4 - CAPITAL ASSETS (Continued)

Capital assets activity of the Luce County Housing Commission for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Land and improvements	\$ 42,965	\$ -	\$ -	\$ 42,965
Building improvements	1,763,574	-	-	1,763,574
Equipment	<u>73,432</u>	<u>529</u>	<u>-</u>	<u>73,961</u>
Subtotal	1,879,971	529	-	1,880,500
<i>Less accumulated depreciation:</i>				
Accumulated depreciation	<u>1,224,560</u>	<u>60,512</u>	<u>-</u>	<u>1,285,072</u>
Net capital assets being depreciated	<u>\$ 655,411</u>	<u>\$ (59,983)</u>	<u>\$ -</u>	<u>\$ 595,428</u>

Capital assets activity of the Helen Newberry Joy Hospital for the current year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Construction in Progress	\$ 209,372	\$ 737,440	\$ (946,812)	\$ -	\$ -
<i>Capital assets being depreciated:</i>					
Land and land improvements	467,736	-	-	-	467,736
Building	11,112,650	25,836	31,499	-	11,169,985
Equipment	<u>8,438,173</u>	<u>218,097</u>	<u>915,313</u>	<u>-</u>	<u>9,571,583</u>
Total	<u>20,018,559</u>	<u>243,933</u>	<u>946,812</u>	<u>-</u>	<u>21,209,304</u>
<i>Less accumulated depreciation:</i>					
Land and land improvements	52,135	10,722	-	-	62,857
Building	3,600,411	552,079	-	-	4,152,490
Equipment	<u>5,998,810</u>	<u>780,276</u>	<u>-</u>	<u>-</u>	<u>6,779,086</u>
Total accumulated depreciation	<u>9,651,356</u>	<u>1,343,077</u>	<u>-</u>	<u>-</u>	<u>10,994,433</u>
Net capital assets being depreciated	<u>\$ 10,367,203</u>	<u>\$ (1,099,144)</u>	<u>\$ 946,812</u>	<u>\$ -</u>	<u>\$ 10,214,871</u>
Total Net Capital Assets	<u>\$ 10,576,575</u>	<u>\$ (361,704)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,214,871</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Luce reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS		
	General Fund	All Others	Totals
Revenue Sharing Reserve	\$ 93,631	\$ -	\$ 93,631
Airport	5,000	-	5,000
2004 Tax Revolving Reserve	315	-	315
All Others	<u>45,188</u>	<u>2,599</u>	<u>47,787</u>
Total	<u>\$ 144,134</u>	<u>\$ 2,599</u>	<u>\$ 146,733</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

TRANSFERS IN	TRANSFERS OUT				
	General Fund	Ambulance	Revenue Sharing Reserve	All Others	Total
General Fund	\$ -	\$ -	\$ 112,061	\$ 51,065	\$ 163,126
All Other	<u>88,949</u>	<u>67,349</u>	<u>-</u>	<u>11,086</u>	<u>167,384</u>
Total	<u>\$ 88,949</u>	<u>\$ 67,349</u>	<u>\$ 112,061</u>	<u>\$ 62,151</u>	<u>\$ 330,510</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LEASES

Capital Leases – The County leases vehicles and other equipment under capital leases with yearly lease payments ranging from \$2,920 to \$9,144 including interest rates ranging from 4.9% to 11%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

The following is a schedule, by year, of future minimum payments required under the leases, together with their present value as of December 31, 2005:

2006	\$ 28,166
2007	28,166
2008	9,483
2009	<u>6,993</u>
Total minimum lease payments	72,808
Less: Amount representing interest	<u>(8,419)</u>
Present value of minimum lease payments	<u>\$ 64,389</u>

Interest expense was charged to the following programs:

Governmental Activities:	
Public Safety	\$ 1,049
Recreation and Culture	<u>456</u>
Total Governmental Activities	<u>\$ 1,505</u>

HEALTH DEPARTMENT

The District Health Department has capital lease commitments for four Konica copiers.

The following is a schedule, by year, of future minimum payments required under the leases, together with their present value as of September 30, 2005:

2006	\$ <u>5,168</u>
Total minimum lease payments	5,168
Less: Amount representing interest	<u>(127)</u>
Present value of minimum lease payments	<u>\$ 5,041</u>

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:							
Indirect County Obligations:							
Act 185 Bonds for DPW							
Sewer No. 1	5%	2016	\$ 372,000	\$ -	\$ 29,000	\$ 343,000	\$ 30,000
Installment Loans:							
Ballpark - Parks & Recreation	6%	2005	7,206	-	7,206	-	-
Parks & Recreation	5%	2011	53,609	-	6,903	46,706	7,151
General Obligation Bonds:							
1996 Unlimited Tax	5.1%-7.6%	2006	365,000	-	175,000	190,000	190,000
Series 2002-B, Limited Tax, Capital Improvement Bonds	4.45%	2009	305,000	-	55,000	250,000	55,000
Total Governmental Activities			<u>\$ 1,102,815</u>	<u>\$ -</u>	<u>\$ 273,109</u>	<u>\$ 829,706</u>	<u>\$ 282,151</u>

Interest expense was charged to the following programs:

Governmental Activities:		
General Government		\$ 2,438
Public Works		17,875
Health and Welfare		32,013
Recreation and Culture		3,112
Total Governmental Activities		<u>\$ 55,438</u>

	Interest Rate	Principal Matures	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-Type Activities:							
Limited Tax Notes*							
Series 2004	Variable	2005	155,836	-	155,836	-	-
Series 2005	Variable	2006	-	375,000	194,834	180,166	180,166
Total Business-Type Activities			<u>\$ 155,836</u>	<u>\$ 375,000</u>	<u>\$ 350,670</u>	<u>\$ 180,166</u>	<u>\$ 180,166</u>

*Interest payments vary according to payment dates and interest rates. Because payment dates have not been prescheduled and interest is variable, outstanding interest is not determinable at this time.

NOTE 7 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	282,151	39,647
2007	98,509	25,628
2008	103,884	21,032
2009	109,278	16,195
2010	39,692	11,116
2011-2015	164,192	28,231
2016-2020	<u>32,000</u>	<u>800</u>
Total	<u>\$ 829,706</u>	<u>\$ 142,649</u>

Other Information on Long-Term Debt

The General Obligation Tax Notes are issued to finance the Delinquent Tax Revolving Funds for the purchase of delinquent real property taxes in accordance with the provisions of Sections 211.87b, 211.87c, and 211.87d of the 1979 Compiled Laws, as amended. The assets of the respective 100 percent Tax Payment Funds are pledged for the payment of principal and interest on these notes.

The County has irrevocably pledged its full faith and credit as collateral for the DPW Sewer No. 1 bonds issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance sewage system construction projects which are administered by the County of Luce Department of Public Works for local municipalities. Payments by the Village of Newberry, McMillan and Pentland Townships, to the County, in accordance with contractual agreements, provide the money required to meet the principal and interest on these bonds.

The County has irrevocably pledged its full faith and credit as collateral for the County of Luce Building Authority Bonds, Series 1978 issued in accordance with the provisions of Public Act 31, of 1948, as amended, for the purpose of construction of the Senior Citizens Housing Facility for the Luce County Housing Commission. The Luce County Housing Commission leases the property from the Luce County Building Authority for the period which is the lesser of fifty years or until the present value of the minimum lease payments are paid.

The County has irrevocably pledged its full faith and credit as collateral for the County of Luce Building Authority Bonds, Series 1997 issued in accordance with the provisions of Public Act 31 of 1948, as amended, for the purpose of renovation of the Helen Newberry, Joy Hospital.

NOTE 7 - LONG-TERM DEBT (Continued)

Compensated Absences

Under existing union contracts and County policies, all regular full-time employees are eligible for paid leave based on length of service. Accrued vacation benefits are earned in varying amounts depending on the number of years of service up to a maximum number of days depending on the department. Sick leave, which is applicable only to union employees, may be accumulated up to 90 days. Upon termination, up to 50% of the unused sick leave up to a maximum of 45 days may be paid. Current portions of accumulated sick and vacation pay are not material.

A summary of vested benefits payable at December 31, 2005 is as follows:

Vacation	\$ 61,351
Sick Leave	<u>32,208</u>
TOTALS	<u>\$ 93,559</u>

ROAD COMMISSION

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Balances</u> <u>01/01/05</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>12/31/05</u>
Vested Employee Benefits Payable			
Vacation Benefits	\$ 72,667	\$ (3,129)	\$ 69,538
Sick Leave Benefits	<u>152,437</u>	<u>(8,125)</u>	<u>144,312</u>
Total	<u>\$ 225,104</u>	<u>\$ (11,254)</u>	<u>\$ 213,850</u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. New employees are eligible for vacation benefits after 1 year of service, and vacation benefits accrue on a biweekly pay period basis thereafter. Employees may accumulate up to a maximum of 2 years vacation benefits.

Sick Leave Benefits

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Employees hired prior to July 1, 1981, upon voluntary termination with ten working days notice, retirement, or death of an employee in the service of the Road Commission, shall be paid for 100% of any accumulated unused sick leave up to a maximum of 160 days.

NOTE 7 - LONG-TERM DEBT (Continued)

Employees hired after July 1, 1981 will receive payment for ½ of their unused accumulated sick leave up to a maximum of 60 days, upon retirement only.

HEALTH DEPARTMENT

The District Health Department has an accrued liability for accumulated vested vacation benefits payable and a contingent liability for accumulated sick leave benefits of its employees. As of September 30, 2005, the accumulated vacation and sick leave benefits were as follows:

	Account Balance 10/01/04	Additions	Deletions	Account Balance 09/30/05
Vacation	\$ 137,389	\$ 15,170	\$ -	\$ 152,559
Sick	<u>85,207</u>	<u>13,455</u>	<u>-</u>	<u>98,662</u>
TOTAL	<u>\$ 222,596</u>	<u>\$ 28,625</u>	<u>\$ -</u>	<u>\$ 251,221</u>

Vacation and Sick Leave Policy - Vacations are earned in varying amounts depending on the number of years of service and may be accumulated up to a maximum of 30 days.

Sick leave is paid at fifty percent of the employee's unused sick leave, up to a maximum of 480 hours, upon retirement, separation, or death after ten years of service. Payment shall be made at the employee's current rate of pay.

LUCE COUNTY HOUSING COMMISSION

During the year ended December 31, 2005, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds	\$ 470,000	\$ -	\$ 110,000	\$ 360,000	\$ 115,000
Vested sick pay	<u>5,855</u>	<u>638</u>	<u>-</u>	<u>6,493</u>	<u>-</u>
Totals	<u>\$ 475,855</u>	<u>\$ 638</u>	<u>\$ 110,000</u>	<u>\$ 366,493</u>	<u>\$ 115,000</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Long-term obligations at December 31, 2005 are comprised of the following amounts:

1. 1978 Capital Building Bonds due in annual installments of \$10,000 to \$100,000 through May 1, 2007 with interest at 7.25%	\$ 200,000
2. 2002 Rehabilitation Bonds due in annual installments of \$5,000 to \$50,000 through July 1, 2010 with interest at 4.45%	160,000
	360,000
3. Vested sick pay	6,493
Total long-term obligations	<u>\$ 366,493</u>

The annual requirements to amortize long-term obligations outstanding as of December 31, 2005 are as follows:

Year Ended December 31	Bond Issues		Vested Sick Pay	Total
	Principal	Interest		
2006	115,000	17,995	-	132,995
2007	125,000	10,077	-	135,077
2008	30,000	5,340	-	35,340
2009	40,000	4,006	-	44,006
2010	<u>50,000</u>	<u>2,224</u>	<u>6,493</u>	<u>58,717</u>
Total	<u>\$ 360,000</u>	<u>\$ 39,642</u>	<u>\$ 6,493</u>	<u>\$ 406,135</u>

Interest charged to expenses totaled \$24,260.

HELEN NEWBERRY JOY HOSPITAL

Long-term liability activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Amounts Due Within One Year
Long-term debt payable:					
Series 2001A	\$ 5,289,201	\$ -	\$ 187,149	\$ 5,102,052	\$ 209,547
Series 2001B	254,034	-	92,021	162,013	103,305
Equipment note	1,000,000	-	42,613	957,387	223,934
Other	<u>30,199</u>	<u>-</u>	<u>30,199</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 6,573,434</u>	<u>\$ -</u>	<u>\$ 351,982</u>	<u>\$ 6,221,452</u>	<u>\$ 536,786</u>

NOTE 7 - LONG-TERM DEBT (Continued)

The bonds payable are summarized as follows:

- Revenue bonds payable to a financial institution, Healthcare Facilities Series 2001A Bond Agreement, with monthly payment ranging from \$16,000 to \$39,400 plus interest, with a portion fixed at a rate of 5.61 percent and a portion variable that was 5.44 percent at December 31, 2005. These bonds are collateralized by substantially all assets of the Hospital.
- Revenue bond payable to a financial institution, Healthcare Facilities Series 2001B Bond Agreement, with monthly payments ranging from \$8,800 to \$9,500 plus interest at a variable rate, which was 5.44 percent at December 31, 2005. These bonds are collateralized by substantially all assets of the Hospital.
- Note payable to a financial institution, related to acquisition of equipment, with monthly payments ranging from \$12,600 to \$22,700, plus interest at 4.2 percent. The note payable is collateralized by substantially all assets of the Hospital.

The following is a schedule by years of principal and interest as of December 31, 2005:

Years Ending December 31	Long-term Debt	
	Principal	Interest
2006	536,786	271,893
2007	525,513	248,359
2008	487,814	226,767
2009	468,253	204,872
2010	251,742	189,176
2011-2015	1,448,903	755,689
2016-2020	1,828,280	376,311
2021-2025	674,161	24,036
Total payments	\$ 6,221,452	\$ 2,297,103

NOTE 8 - RISK MANAGEMENT

Risk Management – The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The County joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its vehicle, property, and general liability insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

NOTE 8 - RISK MANAGEMENT (Continued)

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The government is unable to provide an estimate of the amounts of additional assessments.

NOTE 9 - CONTINGENT LIABILITIES

The County and component units have received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the County at December 31, 2005.

LMAS District Health Department:

Medicare - District Health services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. Certain District Health services are paid based on a cost reimbursement methodology. The Health Department reports such activity through the submission of its annual cost reports which are subject to audit by the Medicare fiscal intermediary. The Health Department's classification of clients under the Medicare program and the appropriateness of their admission and visits are subject to a review by Medicare.

Economic Development Corporation:

The Luce County Economic Development Corporation (EDC) is a guarantor for a local business loan with a local bank. The agreement provides that the EDC will guarantee payments on the loan agreement. The bank may agree to release the guarantee upon the borrower reaching a principal balance of \$100,000. The outstanding balance of the loan at December 31, 2005 is \$284,051. EDC cash has been restricted in the amount of \$30,000 for this purpose.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

GENERAL GOVERNMENT AND HOUSING

Description of Plan and Plan Assets - The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0 percent times the final average compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2004.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan). MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2004 is as follows:

General	15.74%
Housing Commission	12.26%

Annual Pension Cost - During the year ended December 31, 2005, the County's contributions totaling \$154,284 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three year trend information as of December 31, follows:

	2002	2003	2004
Actuarial Value of Assets	\$ 1,822,786	\$ 1,972,826	\$ 2,131,543
Actuarial Accrued Liability	2,914,373	3,071,468	3,343,489
Unfunded AAL	1,091,587	1,098,642	1,211,946
Funded Ratio	62.5%	64%	64%
Covered Payroll	889,309	907,429	991,194
UAAL as a Percentage of Covered Payroll	123%	121%	122%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 114,590	100%	0
2003	128,529	100%	0
2004	146,863	100%	0

ROAD COMMISSION

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Luce County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Local Government Unit. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Luce County Road Commission's competitive bargaining units and requires a contribution based on gross wages by County Road Commission only.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at actuarially determined rates; the current rates were 16.62% for the engineer/manager and 22.27% for general employees at December 31, 2004.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Costs – For year ended 2005, the Luce County Road Commission's pension cost of \$172,847 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2003, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	2002	2003	2004
Actuarial Value of Assets	\$ 3,710,211	\$ 3,896,539	\$ 4,013,444
Actuarial Accrued Liability	5,563,174	6,032,626	6,331,712
Unfunded AAL	1,852,963	2,136,087	2,318,268
Funded Ratio	67%	65%	63%
Covered Payroll	890,280	868,162	860,551
UAAL as a Percentage of Covered Payroll	208%	246%	269%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 174,894	100%	0
2003	182,261	100%	0
2004	172,847	100%	0

LMAS DISTRICT HEALTH DEPARTMENT

Plan Description - The LMAS District Health Department contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (A); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

All full-time employees of the LMAS District Health Department are eligible to participate in the System. Benefits vest after six years of service. LMAS employees listed after February 1997 who retire at or after age 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 1.7 percent times the member's 5 year final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and County ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an active employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the District Health Department's personnel policy, which requires employees to contribute -0- percent to the plan. The District Health Department is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2004 is as follows:

General	0%
Employee 2/97	7.84%

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Cost – During the year ended September 30, 2005, the District Health Department's contributions totaling \$125,648 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31 is as follows:

	2002	2003	2004
Actuarial Value of Assets	\$ 5,822,029	\$ 6,113,081	\$ 6,387,158
Actuarial Accrued Liability	5,535,184	5,823,673	6,004,879
(Over) Unfunded AAL	(286,845)	(289,408)	(382,279)
Funded Ratio	105%	105%	106%
Covered Payroll	2,610,491	2,344,678	2,481,348
UAAL as a Percentage of Covered Payroll	0%	0%	0%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ -	100%	0
2003	580	100%	0
2004	43,144	100%	0

HELEN NEWBERRY JOY HOSPITAL

Plan Description – The Hospital sponsors both a defined benefit plan and a defined contribution plan. The Hospital participates in the Michigan Municipal Employees Retirement System (MMERS), and agent multiple-employer defined benefit pension plan that covers qualifying full-time employees of the Hospital who did not migrate to the defined contribution plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing Michigan, 48917.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Funding Policy – Benefit provisions of the MMERS, and employer and employee obligations to contribute, are outlined in Act No. 47 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior service cost over a 40-year period, net of amortization of investment gains over a 10-year period.

Annual Pension Cost – The Hospital's contributions to the plan amounted to \$331,457 and \$306,036 in 2005 and 2004, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2002.

Three year trend information as of December 31 is as follows:

	2002	2003	2004
Annual Pension Cost (APC)	\$ 140,353	\$ 219,199	\$ 331,457
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	8,706,864	9,161,523	9,669,849
Actuarial accrued liability (entry age)	10,363,835	11,230,615	11,483,243
Unfunded Actuarial Accrued Liability (UAAL)	1,656,971	2,069,092	1,813,394
Funded Ratio	84%	82%	84%
Covered Payroll	2,957,088	3,031,204	2,984,024
UAAL as a Percentage of Covered Payroll	(56)%	(68)%	(61)%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 219,199	100%	0
2003	306,036	100%	0
2004	331,457	100%	0

Defined Contribution Plan – The Hospital sponsors a defined contribution plan covering all employees hired after June 1, 2001, and all other employees who elected to change from the defined benefit plan. Participating employees in this plan must contribute 2 percent of their gross earnings and the Hospital contributes 7 percent of gross earning for participants. The Hospital's contribution totaled \$439,822 for the year ended December 31, 2005.

NOTE 11 - FUND BALANCE/RETAINED EARNINGS

Reservations

Fund Balance reservations are summarized as follows:

Special Revenue Funds

Revenue Sharing Reserve – reserved for funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.	\$ 359,954
Total Special Revenue Funds	<u>\$ 359,954</u>

Debt Service Funds

Hospital Bond Debt Service – reserved for payment of principal and interest on hospital bonds	\$ 592,309
Total Debt Service Funds	<u>\$ 592,309</u>

Designations

Fund balance designations, all of which are designations for subsequent years' expenditures, are summarized as follows:

Capital Project Funds

Crisp Point Lighthouse	\$ 39,250
Total Capital Project Funds	<u>\$ 39,250</u>

NOTE 12 - INTERLOCAL AGREEMENT – REVOLVING LOAN FUND

The Luce County EDC and McMillan Township are parties to an interlocal agreement to administer a revolving loan fund and grant program. The loans (or grants) are issued to qualified local businesses to promote economic development in the Luce County area. McMillan Township pays the Luce County EDC an annual fee to handle the administrative duties of the revolving loan fund such as loan processing, maintaining loan files, and payment processing. The agreement provides that all grant or loan applications must be presented to the EDC Board for review with final approval by both the EDC and Township Boards. The agreement also allows either board to approve a loan rejected by the other, provided there are sufficient funds in that government's control to finance the entire project.

NOTE 12 - INTERLOCAL AGREEMENT – REVOLVING LOAN FUND (Continued)

Pursuant to this agreement, the cash and loan balances are jointly held by the EDC and the Township. The balances are considered "reuse" monies according to the terms of the original grant agreements from the U.S. Department of Commerce which are now fully closed out. A summary of the activity of the revolving loan fund for the year ended December 31, 2005 is as follows:

Balance, January 1	\$ 1,785,671
Loans granted during period	170,000
Less: Repayments	<u>(132,702)</u>
Subtotal	1,822,969
Less: allowance for loan losses	<u>(200,527)</u>
Balance, December 31	<u><u>\$ 1,622,442</u></u>

NOTE 13 - DEFICIT FUND EQUITY BALANCES

A fund equity deficit existed in the following funds as indicated:

Child Care	\$ 4,886
Secondary Road Patrol	1,767

The County plans to recover these deficits with transfers from governmental funds.

NOTE 14 - POST EMPLOYMENT BENEFITS

Component Unit – Road Commission

In addition to the pension described in Note 10, the Luce County Road Commission provides post-employment health care and cancer insurance benefits to all retired employees and/or their spouse and life insurance benefits for the retiree only. The benefits are provided in accordance with Article 34 (a), (b), and (c) of the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the Road Commission agrees to pay for the supplemental health insurance coverage for both.

For employees hired prior to September 1, 1998, the Road Commission agrees to pay the premium for each employee and spouse at time of retirement. Upon eligibility for Medicare, the Employer agrees to pay for Blue Cross/Blue Shield supplemental coverage for both the retiree and his spouse.

NOTE 14 - POST EMPLOYMENT BENEFITS (Continued)

For all employees hired after September 1, 1998, the Road Commission agrees to pay 4% of the premium for each employee at time of retirement for each year of service said employee has spent with the Road Commission. Said employee may elect to have coverage provided to his spouse at the employee's expense.

In order for an employee to be eligible to health care benefits at retirement, the employee must retire from active service with the Road Commission at age 60 with 10 years of service or at age 55 with 25 years of service.

During 2005, twenty-nine retirees and/or spouses were eligible for the post-employment health care benefits at a cost of \$277,501; twenty-nine retirees and/or spouses were eligible for cancer insurance benefits at a cost of \$5,334; and seventeen retirees were eligible for life insurance benefits at a cost of \$2,480. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis.

Required Supplemental Information

Required Supplemental Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,149,840	\$ 1,150,455	\$ 1,157,573	\$ 7,118
License & Permits	16,521	12,216	12,234	18
Federal Sources	120,497	108,386	114,439	6,053
State Sources	105,443	109,565	110,690	1,125
Local Sources	19,000	20,323	20,323	-
Charges for Services	200,754	265,046	265,111	65
Interest & Rentals	14,820	27,426	27,409	(17)
Fines & Forfeitures	7,040	5,530	5,530	-
Other Revenue	765	21,903	19,789	(2,114)
TOTAL REVENUES	1,634,680	1,720,850	1,733,098	12,248
EXPENDITURES:				
Legislative:				
Board of Commissioners	53,742	58,239	58,128	111
Judicial:				
Circuit Court	63,453	62,529	65,337	(2,808)
District Court	122,865	142,124	142,093	31
Friend of the Court	118,939	109,379	110,237	(858)
Jury Commission	2,022	2,146	2,145	1
Probate Court	60,836	60,361	60,401	(40)
Juvenile Court	55,506	54,117	54,077	40
Court Appointed Appellate Attorney	56,000	52,000	51,346	654
Total Judicial	479,621	482,656	485,636	(2,980)
General Government:				
Elections	2,920	2,168	2,168	-
Clerk/Register of Deeds	173,834	176,887	177,771	(884)
Equalization	93,030	92,885	92,869	16
Prosecuting Attorney	102,135	103,077	103,638	(561)
Treasurer	92,559	92,465	89,414	3,051
Computer	20,500	20,606	19,116	1,490
Buildings & Grounds	109,913	112,489	140,535	(28,046)
Record Copying	3,657	1,266	1,317	(51)
Total General Government	598,548	601,843	626,828	(24,985)

Required Supplemental Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	156,973	164,053	215,683	(51,630)
Zoning Commission	44,877	42,391	42,462	(71)
Jail	152,825	176,416	179,902	(3,486)
Building/Housing Commission	2,350	2,083	2,083	-
Total Public Safety	357,025	384,943	440,130	(55,187)
Health & Welfare:				
Contagious Diseases	100	-	-	-
Medical Examiner	3,200	7,473	7,473	-
Total Health & Welfare	3,300	7,473	7,473	-
Other Expenditures:				
Appropriations	86,968	85,099	82,424	2,675
Employee Benefits	2,401	2,677	2,677	-
Audit	29,980	37,251	37,251	-
Insurance & Bonds	52,786	62,948	62,948	-
Postage	4,366	4,524	4,523	1
Contingencies	16,940	-	-	-
Total Other Expenditures	193,441	192,499	189,823	2,676
TOTAL EXPENDITURES	1,685,677	1,727,653	1,808,018	(80,365)
EXCESS OF REVENUES OVER EXPENDITURES	(50,997)	(6,803)	(74,920)	(68,117)
OTHER FINANCING SOURCES (USES):				
Lease Proceeds	-	-	78,369	78,369
Operating Transfers In	128,188	163,126	163,126	-
Operating Transfers Out	(77,191)	(88,889)	(88,949)	(60)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 67,434	77,626	\$ 10,192
FUND BALANCE, JANUARY 1			433,486	
FUND BALANCE, DECEMBER 31			\$ 511,112	

**Required Supplemental Information
Budgetary Comparison Schedule
Ambulance Fund
For the Year Ended December 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 296,000	\$ 370,614	\$ 144,357	\$ (226,257)
Local Sources	-	-	95	95
Charges for Services	6,000	9,807	317,562	307,755
Interest & Rentals	7,000	8,350	8,569	219
Other Revenue	500	9,575	9,536	(39)
TOTAL REVENUES	309,500	398,346	480,119	81,773
EXPENDITURES:				
Health and Welfare	265,698	249,995	256,661	(6,666)
Capital Outlay	48,700	124,467	124,466	1
TOTAL EXPENDITURES	314,398	374,462	381,127	(6,665)
EXCESS OF REVENUES OVER EXPENDITURES	(4,898)	23,884	98,992	75,108
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(67,349)	(67,349)	(67,349)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (72,247)	\$ (43,465)	31,643	\$ 75,108
FUND BALANCE, JANUARY 1			637,561	
FUND BALANCE, DECEMBER 31			\$ 669,204	

County of Luce, Michigan

Required Supplemental Information Budgetary Comparison Schedule Airport Fund For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 70,491	\$ 70,277	\$ 73,778	\$ 3,501
Federal Sources	313,921	313,921	313,921	-
State Sources	68,670	68,670	68,670	-
Local Sources	48	-	46	46
Charges for Services	23,000	36,400	34,901	(1,499)
Interest & Rentals	2,525	3,148	1,635	(1,513)
Other Revenue	3,500	3,706	2,288	(1,418)
TOTAL REVENUES	482,155	496,122	495,239	(883)
EXPENDITURES:				
Public Works	478,674	500,280	494,573	5,707
Capital Outlay	100	11,526	11,526	-
TOTAL EXPENDITURES	478,774	511,806	506,099	5,707
EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	\$ 3,381	\$ (15,684)	(10,860)	\$ 4,824
FUND BALANCE, JANUARY 1			18,270	
FUND BALANCE, DECEMBER 31			\$ 7,410	

County of Luce, Michigan

Required Supplemental Information Budgetary Comparison Schedule Revenue Sharing Reserve Fund For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ 271,250	\$ 271,250	\$ -
TOTAL REVENUES	-	271,250	271,250	-
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	-	(112,061)	(112,061)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 159,189	159,189	\$ -
FUND BALANCE, JANUARY 1			200,765	
FUND BALANCE, DECEMBER 31			\$ 359,954	

Other Supplemental Information

County of Luce, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds								
	Family Counseling	ORV Enforcement Grant	Snowmobile Enforcement Grant	Parks and Recreation	Luce County Park & Campground	Coop Extension Service	Friend of the Court	Tax Revolving Reserve	Animal Control
ASSETS:									
Cash & Investments - Unrestricted	\$ 104	\$ 1,450	\$ 4,401	\$ 5,618	\$ 1,824	\$ 24,201	\$ 25,309	\$ 4,065	\$ 14,614
Receivables:									
Accounts	-	5,145	1,193	-	-	-	2,133	-	-
Taxes	-	-	-	73,119	-	73,119	-	-	60,858
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 104	\$ 6,595	\$ 5,594	\$ 78,737	\$ 1,824	\$ 97,320	\$ 27,442	\$ 4,065	\$ 75,472
LIABILITIES:									
Due to Other Funds	\$ -	\$ 5,145	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	672	579	358	6,335	900	-	96
Accrued Liabilities	-	-	215	905	-	898	-	-	1,404
Deferred Revenue	-	-	-	73,119	-	73,119	-	-	60,858
	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	5,145	887	74,603	358	80,352	900	-	62,358
FUND BALANCES:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	-
Undesignated	104	1,450	4,707	4,134	1,466	16,968	26,542	4,065	13,114
TOTAL FUND BALANCES	104	1,450	4,707	4,134	1,466	16,968	26,542	4,065	13,114
TOTAL LIABILITIES AND FUND BALANCES	\$ 104	\$ 6,595	\$ 5,594	\$ 78,737	\$ 1,824	\$ 97,320	\$ 27,442	\$ 4,065	\$ 75,472

County of Luce, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds								
	Luce County Master Plan	Michigan Coastal Mgmt Grant	Remonu- mentation	Register of Deeds Automation	Emergency Management	Local Corrections Officers Training	911	Law Library	Housing Grant/ Loan
ASSETS:									
Cash & Investments - Unrestricted	\$ 5,014	\$ 2,102	\$ 93	\$ 11,527	\$ -	\$ 1,515	\$ 115,884	\$ 1,851	\$ 44,935
Receivables:									
Accounts	-	-	-	-	-	-	25,025	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	39,429	-	13,902	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 5,014	\$ 2,102	\$ 39,522	\$ 11,527	\$ 13,902	\$ 1,515	\$ 140,909	\$ 1,851	\$ 44,935
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 9,531	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	35,622	-	2,089	-	309	-	-
Accrued Liabilities	-	-	-	-	258	-	-	-	-
Deferred Revenue	-	2,102	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	2,102	35,622	-	11,878	-	309	-	-
FUND BALANCES:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	-
Undesignated	5,014	-	3,900	11,527	2,024	1,515	140,600	1,851	44,935
TOTAL FUND BALANCES	5,014	-	3,900	11,527	2,024	1,515	140,600	1,851	44,935
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,014	\$ 2,102	\$ 39,522	\$ 11,527	\$ 13,902	\$ 1,515	\$ 140,909	\$ 1,851	\$ 44,935

County of Luce, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds								
	Officer Training	Secondary Road Patrol	Juvenile Justice	E.U.P. Community Corrections	CDBG Housing Rehabilitation	Brownfield Site Plan Grant	Child Care - Probate	Soldiers & Sailors Relief	Veterans Trust
ASSETS:									
Cash & Investments - Unrestricted	\$ 965	\$ 9,797	\$ -	\$ 1,000	\$ -	\$ -	\$ 4,994	\$ -	\$ 282
Receivables:									
Accounts	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	12,442	5,950	2,469	-	-	1,500	-	-
Inventories	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 965	\$ 22,239	\$ 5,950	\$ 3,469	\$ -	\$ -	\$ 6,494	\$ -	\$ 282
LIABILITIES:									
Due to Other Funds	\$ -	\$ 22,930	\$ 3,923	\$ 2,599	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-	-	-	11,380	-	-
Accrued Liabilities	-	1,076	529	388	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	24,006	4,452	2,987	-	-	11,380	-	-
FUND BALANCES:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	-
Undesignated	965	(1,767)	1,498	482	-	-	(4,886)	-	282
TOTAL FUND BALANCES	965	(1,767)	1,498	482	-	-	(4,886)	-	282
TOTAL LIABILITIES AND FUND BALANCES	\$ 965	\$ 22,239	\$ 5,950	\$ 3,469	\$ -	\$ -	\$ 6,494	\$ -	\$ 282

County of Luce, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

			Debt Service			Capital Project Fund	
	Drunk Driving Caseload Assist.	Substance Abuse	County Park Debt Retirement	Ambulance Building Bond Debt Service	Debt Ret.- Sewage Debt Service	Crisp Point Lighthouse Project	Totals
ASSETS:							
Cash & Investments - Unrestricted	\$ 20,246	\$ -	\$ -	\$ -	\$ -	\$ 39,250	\$ 341,041
Receivables:							
Accounts	-	-	-	-	-	-	33,496
Taxes	-	-	-	-	-	-	207,096
Due from Other Funds	-	2,599	-	-	-	-	2,599
Due from Governmental Units	-	-	-	-	-	-	75,692
Inventories	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 20,246</u>	<u>\$ 2,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,250</u>	<u>\$ 659,924</u>
LIABILITIES:							
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,128
Accounts Payable	-	-	-	-	-	-	58,340
Accrued Liabilities	-	-	-	-	-	-	5,673
Deferred Revenue	-	-	-	-	-	-	209,198
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>317,339</u>
FUND BALANCES:							
Unreserved:							
Designated	-	-	-	-	-	39,250	39,250
Undesignated	20,246	2,599	-	-	-	-	303,335
TOTAL FUND BALANCES	<u>20,246</u>	<u>2,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,250</u>	<u>342,585</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 20,246</u>	<u>\$ 2,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,250</u>	<u>\$ 659,924</u>

County of Luce, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2005

	Special Revenue Funds								
	Family Counseling	ORV Enforcement Grant	Snowmobile Enforcement Grant	Parks and Recreation	Luce County Park & Campground	Coop Extension Service	Friend of the Court	Tax Revolving Reserve	Animal Control
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ 73,778	\$ -	\$ 73,778	\$ -	\$ -	\$ 61,401
License & Permits	-	-	-	-	-	-	-	-	1,600
Federal Sources	-	-	-	-	-	-	2,133	-	-
State Sources	-	5,545	7,512	-	-	-	-	-	-
Local Sources	-	-	5,000	2,896	-	46	-	-	1,038
Charges for Services	675	-	-	9,602	29,883	-	1,130	-	10,157
Interest & Rentals	6	-	-	151	358	1,102	526	-	806
Fines and Forfeitures	-	-	-	-	-	-	-	-	-
Other Revenue	-	-	-	3,255	40	-	-	-	1,402
TOTAL REVENUES	681	5,545	12,512	89,682	30,281	74,926	3,789	-	76,404
EXPENDITURES:									
Judicial	-	-	-	-	-	-	3,789	-	-
General Government	-	-	-	-	-	65,230	-	1,870	-
Public Safety	-	5,145	7,805	-	-	-	-	-	68,293
Public Works	-	-	-	-	-	-	-	-	-
Health and Welfare	2,188	-	-	-	-	-	-	-	-
Community/Economic Development	-	-	-	-	-	-	-	-	-
Recreational and Cultural	-	-	-	85,361	19,232	-	-	-	-
Capital Outlay	-	-	-	257	-	1,216	-	-	1,686
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	2,188	5,145	7,805	85,618	19,232	66,446	3,789	1,870	69,979
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,507)	400	4,707	4,064	11,049	8,480	-	(1,870)	6,425
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	1,414	-	-	-	-	-	13,860	1,502	-
Operating Transfers Out	-	-	-	-	(9,584)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(93)	400	4,707	4,064	1,465	8,480	13,860	(368)	6,425
FUND BALANCES, JANUARY 1	197	1,050	-	70	1	8,488	12,682	4,433	6,689
FUND BALANCES, DECEMBER 31	\$ 104	\$ 1,450	\$ 4,707	\$ 4,134	\$ 1,466	\$ 16,968	\$ 26,542	\$ 4,065	\$ 13,114

County of Luce, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2005

	Special Revenue Funds								
	Luce County Master Plan	Michigan Coastal Mgmt Grant	Remonu- mentation	Register of Deeds Automation	Emergency Management	Corrections Officers Training	911	Law Library	Housing Grant/ Loan
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
License & Permits	-	-	-	-	-	-	-	-	-
Federal Sources	-	1,665	-	-	85,146	-	-	-	-
State Sources	-	-	103,873	-	-	-	82,032	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	-	-	-	12,395	-	1,568	74,656	-	7,226
Interest & Rentals	141	-	-	250	104	-	3,058	-	1,261
Fines and Forfeitures	-	-	-	-	-	-	-	2,000	-
Other Revenue	-	9,590	-	-	-	-	31	-	-
TOTAL REVENUES	141	11,255	103,873	12,645	85,250	1,568	159,777	2,000	8,487
EXPENDITURES:									
Judicial	-	-	-	-	-	-	-	161	-
General Government	-	-	-	20,000	-	-	-	-	-
Public Safety	-	-	-	-	96,436	928	18,266	-	-
Public Works	-	-	116,712	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-	-	-
Community/Economic Development	-	-	-	-	-	-	-	-	6,500
Recreational and Cultural	-	11,255	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	105,531	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	11,255	116,712	20,000	96,436	928	123,797	161	6,500
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	141	-	(12,839)	(7,355)	(11,186)	640	35,980	1,839	1,987
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	4,606	-	-	-	-
Operating Transfers Out	-	-	-	-	(1,016)	-	(19,000)	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	141	-	(12,839)	(7,355)	(7,596)	640	16,980	1,839	1,987
FUND BALANCES, JANUARY 1	4,873	-	16,739	18,882	9,620	875	123,620	12	42,948
FUND BALANCES, DECEMBER 31	\$ 5,014	\$ -	\$ 3,900	\$ 11,527	\$ 2,024	\$ 1,515	\$ 140,600	\$ 1,851	\$ 44,935

County of Luce, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2005

	Special Revenue Funds								
	Officer Training	Secondary Road Patrol	Juvenile Justice	E.U.P. Community Corrections	CDBG Housing Rehabilitation	Brownfield Site Plan Grant	Child Care - Probate	Soldiers & Sailors Relief	Veterans Trust
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
License & Permits	-	-	-	-	-	-	-	-	-
Federal Sources	-	-	-	-	70,812	3,500	-	-	-
State Sources	674	38,548	16,442	12,645	-	-	-	-	568
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	1,705	-	-
Interest & Rentals	-	-	-	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-	-	-	-	-
Other Revenue	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	674	38,548	16,442	12,645	70,812	3,500	1,705	-	568
EXPENDITURES:									
Judicial	-	-	16,339	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	-
Public Safety	525	40,315	-	12,062	-	-	-	-	-
Public Works	-	-	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	3,500	74,340	-	800
Community/Economic Development	-	-	-	-	70,812	-	-	-	-
Recreational and Cultural	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	101	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	525	40,315	16,339	12,163	70,812	3,500	74,340	-	800
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	149	(1,767)	103	482	-	-	(72,635)	-	(232)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	1,085	-	-	-	67,500	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	149	(1,767)	1,188	482	-	-	(5,135)	-	(232)
FUND BALANCES, JANUARY 1	816	-	310	-	-	-	249	-	514
FUND BALANCES, DECEMBER 31	\$ 965	\$ (1,767)	\$ 1,498	\$ 482	\$ -	\$ -	\$ (4,886)	\$ -	\$ 282

County of Luce, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2005

			Debt Service Funds			Capital Project Fund	
	Drunk Driving Caseload Assist.	Substance Abuse	County Park Debt Retirement	Ambulance Building Bond Debt Service	Debt Ret.- Sewage Debt Service	Crisp Point Lighthouse Project	Totals
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 208,957
License & Permits	-	-	-	-	-	-	1,600
Federal Sources	-	-	-	-	-	-	163,256
State Sources	2,451	-	-	-	-	-	270,290
Local Sources	-	-	-	-	46,875	5,168	61,023
Charges for Services	-	-	-	-	-	-	148,997
Interest & Rentals	567	-	-	-	-	672	9,002
Fines and Forfeitures	-	-	-	-	-	-	2,000
Other Revenue	-	-	-	-	-	-	14,318
TOTAL REVENUES	3,018	-	-	-	46,875	5,840	879,443
EXPENDITURES:							
Judicial	2,139	-	-	-	-	-	22,428
General Government	-	-	-	-	-	-	87,100
Public Safety	-	-	-	-	-	-	249,775
Public Works	-	-	-	-	-	-	116,712
Health and Welfare	-	-	-	-	-	-	80,828
Community/Economic Development	-	-	-	-	-	-	77,312
Recreational and Cultural	-	-	-	-	-	-	115,848
Capital Outlay	-	-	-	-	-	-	108,791
Debt Service	-	-	9,583	67,349	46,875	-	123,807
TOTAL EXPENDITURES	2,139	-	9,583	67,349	46,875	-	982,601
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	879	-	(9,583)	(67,349)	-	5,840	(103,158)
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	-	-	9,583	67,349	-	-	166,899
Operating Transfers Out	-	-	-	-	-	-	(29,600)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	879	-	-	-	-	5,840	34,141
FUND BALANCES, JANUARY 1	19,367	2,599	-	-	-	33,410	308,444
FUND BALANCES, DECEMBER 31	\$ 20,246	\$ 2,599	\$ -	\$ -	\$ -	\$ 39,250	\$ 342,585

County of Luce, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2005

	2001 Tax Revolving	2002 Tax Revolving	2003 Tax Revolving	Building Department	Abstract	Fair Board	Totals
ASSETS:							
Cash & Investments - Unrestricted	\$ 52,726	\$ 49,920	\$ 36,403	\$ 3,564	\$ 2	\$ 4,743	\$ 147,358
Taxes Receivable	2,265	1,297	20,103	-	-	-	23,665
Accrued Interest	1,563	895	6,936	-	-	-	9,394
TOTAL ASSETS	<u>\$ 56,554</u>	<u>\$ 52,112</u>	<u>\$ 63,442</u>	<u>\$ 3,564</u>	<u>\$ 2</u>	<u>\$ 4,743</u>	<u>\$ 180,417</u>
LIABILITIES:							
Due to Other Funds	\$ 1,237	\$ 1,204	\$ 1,218	\$ -	\$ -	\$ -	\$ 3,659
Accounts Payable	-	-	-	37	-	-	37
Accrued Liabilities	-	-	-	599	-	-	599
TOTAL LIABILITIES	<u>1,237</u>	<u>1,204</u>	<u>1,218</u>	<u>636</u>	<u>-</u>	<u>-</u>	<u>4,295</u>
NET ASSETS:							
Unrestricted	<u>55,317</u>	<u>50,908</u>	<u>62,224</u>	<u>2,928</u>	<u>2</u>	<u>4,743</u>	<u>176,122</u>
TOTAL NET ASSETS	<u>55,317</u>	<u>50,908</u>	<u>62,224</u>	<u>2,928</u>	<u>2</u>	<u>4,743</u>	<u>176,122</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 56,554</u>	<u>\$ 52,112</u>	<u>\$ 63,442</u>	<u>\$ 3,564</u>	<u>\$ 2</u>	<u>\$ 4,743</u>	<u>\$ 180,417</u>

County of Luce, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds For the Year Ended December 31, 2005

	2001 Tax Revolving	2002 Tax Revolving	2003 Tax Revolving	Building Department	Abstract	Fair Board	Totals
OPERATING REVENUES:							
Charges for Services	\$ 949	\$ 768	\$ 10,341	\$ 35,435	\$ 3,085	\$ 3,973	\$ 54,551
State Sources	-	-	-	-	-	910	910
Interest & Rentals	-	618	15,342	-	-	-	15,960
Other Revenue	-	-	-	-	-	28,781	28,781
TOTAL OPERATING REVENUES	949	1,386	25,683	35,435	3,085	33,664	100,202
OPERATING EXPENSES:							
General and Administrative	-	-	907	48,553	3,569	33,342	86,371
Total Operating Expenses	-	-	907	48,553	3,569	33,342	86,371
OPERATING INCOME (LOSS)	949	1,386	24,776	(13,118)	(484)	322	13,831
NON-OPERATING REVENUES (EXPENSES):							
Interest on Deposits	-	829	462	178	-	-	1,469
Interest Expense	-	-	(1,411)	-	-	-	(1,411)
Total Non-operating Revenues (Expenses)	-	829	(949)	178	-	-	58
INCOME (LOSS) BEFORE TRANSFERS	949	2,215	23,827	(12,940)	(484)	322	13,889
Operating Transfers In	-	-	-	-	485	-	485
CHANGES IN NET ASSETS	949	2,215	23,827	(12,940)	1	322	14,374
NET ASSETS, JANUARY 1	54,368	48,693	38,397	15,868	1	4,421	161,748
NET ASSETS, DECEMBER 31	\$ 55,317	\$ 50,908	\$ 62,224	\$ 2,928	\$ 2	\$ 4,743	\$ 176,122

County of Luce, Michigan

Combining Statement of Cash Flows Nonmajor Enterprise Funds For the Year Ended December 31, 2005

	2001 Tax Revolving	2002 Tax Revolving	2003 Tax Revolving	Building Department	Abstract	Fair Board	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers	\$ 949	\$ 14,643	\$ 173,796	\$ 35,435	\$ 3,085	\$ 33,664	\$ 261,572
Payments to Suppliers	-	-	(907)	(49,220)	(3,598)	(33,342)	(87,067)
Internal Activity - Payments/Receipts with Other Funds	-	-	908	-	-	-	908
Net Cash Provided (Used) by Operating Activities	949	14,643	173,797	(13,785)	(513)	322	175,413
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Principal Payments	-	-	(155,836)	-	-	-	(155,836)
Interest Expense	-	-	(1,411)	-	-	-	(1,411)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(157,247)	-	-	-	(157,247)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:							
Operating Transfers In	-	-	-	-	485	-	485
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	-	-	-	485	-	485
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest Income	-	829	462	178	-	-	1,469
Net Cash Provided (Used) by Investing Activities	-	829	462	178	-	-	1,469
Net Increase (Decrease) in Cash and Cash Equivalents	949	15,472	17,012	(13,607)	(28)	322	20,120
Balances - Beginning of the Year	51,777	34,448	19,391	17,171	30	4,421	127,238
Balances - End of the Year	\$ 52,726	\$ 49,920	\$ 36,403	\$ 3,564	\$ 2	\$ 4,743	\$ 147,358
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ 949	\$ 1,386	\$ 24,776	\$ (13,118)	\$ (484)	\$ 322	\$ 13,831
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Change in Assets and Liabilities:							
Taxes Receivable	-	10,189	139,126	-	-	-	149,315
Accrued Interest Receivable	-	3,068	8,987	-	-	-	12,055
Accounts Payable	-	-	-	(108)	(29)	-	(137)
Due to Other Funds	-	-	908	(559)	-	-	349
Net Cash Provided (Used) by Operating Activities	\$ 949	\$ 14,643	\$ 173,797	\$ (13,785)	\$ (513)	\$ 322	\$ 175,413

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board
County of Luce, Michigan
Newberry, Michigan 49868

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Luce, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the County of Luce, Michigan's basic financial statements and have issued our report thereon, dated April 21, 2006. We did not audit the financial statements of the Helen Newberry Joy Hospital which represents 60% and 69% of the assets and revenues and the Luce County Road Commission which represents 22% and 9%, of the assets and revenues, respectively, of the Discretely Presented Component Units for the County of Luce, Michigan. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Helen Newberry Joy Hospital and Luce County Road Commission is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Luce County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over the financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could adversely affect Luce County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of prior audit findings as items 98-2 and 99-1.

Members of the Board
County of Luce, Michigan

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We noted other matters involving the internal control over financial reporting, which we have reported to management of the County of Luce, Michigan in a separate letter dated April 21, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Luce, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 05-1, 05-2, 05-3, and the summary schedule of prior audit findings as 04-1, and 04-2.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 21, 2006



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Members of the Board
County of Luce, Michigan
Newberry, Michigan 49868

Compliance

We have audited the compliance of the County of Luce, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in item 05-4 in the accompanying schedule of findings and questioned costs, the County of Luce, Michigan did not comply with requirements regarding allowable costs that are applicable to its Homeland Security Grant Program. Compliance with such requirements is necessary, in our opinion, for the County of Luce, Michigan to comply with the requirements applicable to that program.

Members of the Board
County of Luce, Michigan

In our opinion, except for the noncompliance described in the preceding paragraph, the County of Luce, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County of Luce, Michigan's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 21, 2006

County of Luce, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through from the State of Michigan			
Department of Community Health (to LMAS District Health Dept.):			
Women, Infants and Children	10.557	XX4W1006	\$ 124,292
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Awards (to Luce County Housing Commission):			
Section 8 Vouchers	14.871	C-8091V	364,731
Section 8 Supplement	14.182	-	110,104
Total Direct Awards			474,835
Pass-through from the Michigan State Housing Development Authority (MSHDA):			
Michigan CDBG Housing Program	14.228	MSC-2004-754-HOA	70,812
Total U. S. Department of Housing and Urban Development			545,647
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through from the State of Michigan Department of State Police, Emergency Management Division:			
2003 State Homeland Security Grant Program Part II Training Grant	97.004	-	4,793
2003 Homeland Security Grant Program Part II Solution Area Planner	97.004	-	4,300
2004 Homeland Security Grant Program	97.004	-	73,383
Emergency Management Performance Grant	97.067	-	2,425
Total U.S. Department of Homeland Security			84,901
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES:			
Pass-through from the State of Michigan			
Department of Human Services:			
Title IV-D Incentive Payments	93.560	-	11,543
Friend of the Court - Cooperative Reimb. 10/01/04-09/30/05	93.563	CS/FOC-05-48001	62,236
Friend of the Court - Cooperative Reimb. 10/01/05-09/30/06	93.563	CS/FOC-06-48001	23,496
Prosecuting Attorney - Cooperative Reimb. 10/01/04-09/30/05	93.563	CS/PA-05-48002	11,035
Prosecuting Attorney - Cooperative Reimb. 10/01/05-09/30/06	93.563	CS/PA-06-48002	4,460
Prosecuting Attorney-Foster Care	93.658	PROFC-05-48002	1,028
Subtotal - DHS			113,798

County of Luce, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES:			
Pass-through from the State of Michigan			
Department of Community Health: (to LMAS District Health Dept.)			
Family Planning Project	93.217	05H000173	27,216
Immunization Program IAP - Child Immunization Grants	93.268	H23-CCH522556	11,021
Immunization Program IAP - Vaccine Handling	93.268	H23-CCH504477	860
Vaccine Provided -Value	93.268	-	95,894
Centers Disease Control Prevention Investigation Tech Assist -Bioterrorism	93.283	CCU517018	189,251
Medicaid Administration - Case Management Services	93.778	5XX05MI5048	5,210
Title XIX - Medicaid Program	93.778	-	92,834
Breast and Cervical Cancer Control Prevention	93.919	U57-CCU506738	63,900
Maternal & Child Health Services - Family Planning Project	93.994	B1MIMCHS	5,663
Family Planning Project - Local MCH	93.994	B1MIMCHS	36,213
Maternal & Child Health Services - Case Mgmt Services	93.994	B1MIMCHS	7,856
Subtotal DCH Programs			535,918
Pass-through from the Eastern Upper Peninsula Substance Abuse Services (EUPSAS): (to LMAS District Health Dept.)			
Adult Benefit Waiver	93.767	-	2,976
Medicaid	93.788	-	25,901
Substance Abuse Prevention	93.959	-	67,500
Substance Abuse Treatment	93.959	-	33,750
Subtotal EUPSAS			130,127
Total U.S. Department of Health and Human Services			779,843
U.S. ENVIRONMENTAL PROTECTION AGENCY:			
Pass-through from the State of Michigan Department of Environmental Quality (MDEQ): (to LMAS District Health Department)			
Radon Activities	66.032	-	2,800
EPA Cap Grant for the Drinking Water Revolving Fund	66.468	-	563
State Grant to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	-	3,000
Total U.S. Environmental Protection Agency			6,363

County of Luce, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION:			
Pass-through programs from:			
Alger Intermediate School District: (to LMAS District Health Department)			
Early On-Service Coordination & Discretionary Funds	84.181	1349/190	10,934
Subtotal Alger Intermediate School District			10,934
Pass-through programs from:			
Schoolcraft Intermediate School District: (to LMAS District Health Department)			
Schoolcraft County Early On	84.181	-	31,742
Subtotal Schoolcraft Intermediate School District			31,742
Total U.S. Department of Education			42,676
U.S. DEPARTMENT OF COMMERCE:			
Pass-through programs from:			
Economic Development Administration			
Local Technical Assistance	11.303	06-06-04557	3,500
Pass-through programs from:			
Michigan Department of Environmental Quality			
Coastal Zone Management Grant	11.419	-	1,665
Total U.S. Department of Commerce			5,165
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs from:			
Michigan Department of Transportation			
Airport Improvement Program (See Note F)	20.106	B-26-0042-0505	313,921
County Road 438 from County Road 413 (See Note E)	20.205	STP 0548(007)	151,433
Subtotal MDOT Administered			465,354
Pass-through programs from:			
Michigan Department of State Police			
Hazardous Materials Emergency Planning Grant	20.703	120104-018	631
Total U.S. Department of Transportation			465,985
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,054,872</u>

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Luce, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE B - OVERSIGHT AGENCY:

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Housing and Urban Development which provided the greatest amount of direct awards to the County during 2005.

NOTE C - FEDERAL EXPENDITURES OF COMPONENT UNITS:

The following component units of Luce County had separate audits performed during 2005:

- Luce County Economic Development Corporation
- Luce County Housing Commission
- Luce Mackinac Alger Schoolcraft District Health Department
- Luce County Road Commission
- Helen Newberry Joy Hospital

Federal expenditures incurred by each of the component units (if any) are included in the accompanying schedule.

NOTE D - RECONCILIATION TO BASIC FINANCIAL STATEMENTS:

The following is a reconciliation of the amounts reported on the basic financial statements to the schedule of expenditures of federal awards:

Total Federal per Financial Statements	
Revenues - Primary Government	\$ 591,616
Less: State Revenue Coded as Federal	(2,388)
Add: Component Unit Federal Expenditures	<u>1,465,644</u>
Total Federal Revenue Recognized per Schedule of Expenditures of Federal Awards	<u>\$ 2,054,872</u>

NOTE E - ROAD COMMISSION GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2005, the Federal aid received and expended by the Road Commission was \$151,433 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the road commissions as they are included in MDOT's single audit.

NOTE F – AIRPORT GRANTS

The Michigan Department of Transportation (MDOT) requires that airports report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2005, the Federal aid received and expended by the Airport was \$313,921 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the airports as they are included in MDOT's single audit.

Section I - Summary of Auditors' Results**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified
that are not considered to be
material weaknesses? Yes

Noncompliance material to financial
statements noted? Yes

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified
that are not considered to be
material weaknesses? Yes

Type of auditors' report issued on
compliance for major programs: Qualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? Yes

Identification of Major Programs**CFDA NUMBERS****Name of Federal Program or Cluster**

14.871
97.004 and 97.067

Section 8 Vouchers
Homeland Security Grant Program

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement Findings***Reportable Conditions – Non-Compliance*****Excess Expenditures Over Appropriations*****Finding 05-1***

Statement of Condition/Criteria: Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended December 31, 2005, the County incurred expenditures in excess of amounts appropriated as follows.

<u>Fund/Function/Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government	\$ 601,843	\$ 626,828	\$ (24,985)
Public Safety	384,943	440,130	(55,187)
Special Revenue Funds:			
Remonumentation	81,090	116,712	(35,622)
Child Care-Probate	54,594	74,340	(19,746)

Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The County should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Management's Response – Corrective Action Plan: The budget will be more closely monitored and budget amendments will be made accordingly.

Delinquent In Distributing Tax Revenues***Finding 05-2***

Condition/Criteria: The disbursement of current tax collections, to the respective townships was not conducted in a timely manner as of December 31, 2005. The disbursement was not performed as of April 21, 2006.

Effect: Current tax collections were not remitted in a timely manner to other taxing units.

Cause of Condition: Unknown.

Recommendation: To ensure timeliness of tax disbursements, disbursements should be made within 10 business days in accordance with Department of Treasury regulations.

Management's Response – Corrective Action Plan: The board has implemented compensating controls to reduce the risks discussed above.

Section II – Financial Statement Findings – (Continued)

Reportable Conditions – Non-Compliance

Fund Equity Deficit

Finding 05-3

Statement of Condition/Criteria: Public Act 275 requires that a deficit reduction plan be submitted to the State of Michigan within (90) days of the end of the fiscal year. As of December 31, 2005, the Secondary Road Patrol Fund and Child Care Fund had immaterial accumulated fund equity deficits.

Effect: The County is not in compliance with Public Act 275.

Cause of Condition: Failure to implement a deficit reduction plan when required.

Recommendation: We recommend that the individual responsible for general ledger maintenance review the general ledger on a monthly basis to determine if any funds have a deficit fund equity and to implement a deficit reduction plan when required.

Management's Response – Corrective Action Plan: The deficit in the secondary Road Patrol Fund was caused by the Road Patrol Officer being utilized for a high priority criminal investigation and those overtime hours were incorrectly charged to the Secondary Road Patrol Fund. The General Fund will reimburse the Secondary Road Patrol Fund for that amount.

The deficit in the Child Care Fund will be resolved by an increased appropriation from the General Fund to that fund.

Section III – Federal Award Findings and Questioned Costs

U.S. Department of Homeland Security

Finding 05-4

Program Award: Homeland Security Grant Program; CFDA No. 97.067; U.S. Department of Homeland Security; Pass-through Michigan Department of State Police, Emergency Management Division.

Statement of Condition/Criteria: The County does not maintain the required documentation to be in compliance with OMB Circular A-87 for all federally funded grants. OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments requires time/salaries spent working on Federal Programs to be documented for co-funded and 100% funded staff.

Effect: The County could be incorrectly charging employee salaries to Federal Programs.

Cause of Condition: Unknown.

Section III – Federal Award Findings and Questioned Costs (Continued)

Recommendation: For County employees who work solely for one federal program, a semi-annual wage certification should be prepared and signed by the employee and a supervisor. For those employees who work on multiple federal programs, a weekly record must be maintained documenting the amount of time spent on each federal program and should be signed by the employee and a supervisor.

Management's Response – Corrective Action Plan: The County will implement the required payroll documentation during 2006.

Section II – Financial Statement Findings

Reportable Conditions – Internal Control

Segregation of Duties – Ambulance Department

Finding 98-2

Condition/Criteria: The office secretary of the ambulance department handles nearly all phases of the accounting function, such as accounts receivable, accounts payable, posting to the general ledger, reconciling, receipting and depositing funds. To maintain a strong internal control system in an organization, one employee should not have responsibility for all phases of an accounting system.

Effect: Lack of segregation of duties increases the risk that errors, and irregularities could occur and not be detected in a timely manner.

Cause of Condition: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Response: The board has implemented compensating controls to reduce the risks discussed above.

Status: No change.

Segregation of Duties – EDC (Component Unit)

Finding 99-1

Condition/Criteria: In our assessment of the internal control structure of the EDC, we noted that bookkeeping duties are handled by one individual including accounts receivable, accounts payable, posting to the general ledger, reconciling, and depositing funds. This person also handles bank deposits.

Effect: Lack of segregation of duties increases the risk that errors, omission, and irregularities could occur and not be detected in a timely manner.

Cause of Condition: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Response: The board has implemented compensating controls to reduce the risks discussed above.

Status: No change.

Section II – Financial Statement Findings – (Continued)

Reportable Conditions – Non-Compliance

Excess Expenditures Over Appropriations

Finding 04-1

Condition/Criteria: Public Act 621 of 1978, Section 18, (1) as amended, provides that a county shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the General Fund and Special Revenue Fund's have been shown on a functional basis. The approved budgets of the County for these funds were adopted on an activity and/or program level. During the year ended December 31, 2005, the County incurred functional expenditures which were in excess of the amounts appropriated as shown within in the basic financial statements.

Effect: The County is not in compliance with State law.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The County should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Status: See Finding 05-1

Delinquent in Distributing Tax Revenues

Finding 04-2

Condition/Criteria: The disbursement of current tax collections, to the respective townships was not conducted in a timely manner as of December 31, 2004. The disbursement was not performed until March 3, 2005.

Effect: Current tax collections were not remitted in a timely manner to other taxing units.

Cause of Condition: Unknown.

Recommendation: To ensure timeliness of tax disbursements, disbursements should be made within 10 business days in accordance with Department of Treasury regulations.

Response: The board has implemented compensating controls to reduce the risks discussed above.

Status: See Finding 05-2

Section III – Federal Award Findings and Questioned Costs

NONE.

Additional Information

COUNTY OF LUCE, MICHIGAN

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Members of the Board
County of Luce, Michigan
Newberry, Michigan 49868

Our report on our audit of the basic financial statements of the County of Luce, Michigan, as of and for the year ended December 31, 2005, appears on page 1. That audit was conducted for the purpose of forming opinions on the basic financial statements. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

April 21, 2006

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURE REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of December 31, 2005, the County has the following debt issues which apply to SEC Rule 15c2-12:

1 \$1,400,000 County of Luce 1996 General Obligation Unlimited Tax Bonds.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12:

A. State Equalized Valuation:

Assessed Value as of December 31	Year of State Equalization and Tax Levy	County's Fiscal Year Ended or Ending	Ad Valorem Taxable Value	Taxable Value of Property Granted Tax Abatement Under Acts 198 and 255	Total Taxable Value	Percent Increase Taxable Value	Total SEV	Percent Increase Over Prior Year
1997	1998	1999	\$ 98,665,975	\$ -	\$ 98,665,975	7.7	\$ 128,878,611	16.5
1998	1999	2000	104,303,202	-	104,303,202	5.7	146,014,375	13.3
1999	2000	2001	111,412,105	-	111,412,105	6.8	163,307,526	11.8
2000	2001	2002	121,116,858	-	121,116,858	8.7	180,884,361	10.8
2001	2002	2003	128,876,179	-	128,876,179	6.5	197,567,606	9.2
2002	2003	2004	135,830,650	-	135,830,650	5.4	216,451,147	9.6
2003	2004	2005	145,403,181	-	145,403,181	7.0	241,975,566	11.8
2004	2005	2006	153,644,039	1,137,992	154,782,031	6.5	257,757,066	6.5

Per Capita Total SEV for the Fiscal Year Ending December 31, 2005 (1). \$34,450.

(1) Based on the County's population estimate of 7,024.

Source: County of Luce

B. Tax Rates - Five Year History (1):

	Year of Levy (December 1)				
	2005	2004	2003	2002	2001
County Operating:					
July 1 Levy	1.8313	-	-	-	-
December 1 Levy	3.6627	5.5965	5.6859	5.7713	5.8021
Ambulance	.9817	.9484	.9636	.9781	.9834
Parks & Recreation	.4759	.4848	.4926	.5000	.4280
Extension	.4759	.4848	.4926	.5000	.4280
Hospital Bond Debt Service	2.0000	2.0000	2.0000	2.0000	2.0000
Animal Control	.3961	.4035	.4100	.4010	.4032
Airport	.4759	.4848	.4926	.5000	-
Total	<u>10.2995</u>	<u>10.4028</u>	<u>10.5373</u>	<u>10.6504</u>	<u>10.0447</u>

(1) Per \$1,000 of SEV. Excludes taxes levied by underlying taxing units.

Source: County of Luce

NOTE 2 - TABLES: (Continued)

C. County Tax Collections Record-Five Year History:

<u>Levied December 1</u>	<u>County Tax Levy December 1 (1)</u>	<u>Collections to March 1 Year Following Levy</u>	<u>Collections to to August 1 (2)</u>
1999	549,366	481,721	87.69
2000	571,226	502,959	88.05
2001	702,851	624,783	88.89
2002	744,153	662,331	89.00
2003	722,591	673,448	93.19
2004	814,563	727,270	89.28

- (1) The County's fiscal year begins January 1. Taxes are due the previous July 1 and December 1 and are returned as delinquent the following March 1. Taxes on real property remaining delinquent after 26 months from the date of delinquency are sold at a tax sale.
- (2) Includes payments from the Fund; unpaid personal property taxes which are less than 1% of the total levy are immaterial.

Source: Luce County

D. Major Ad Valorem Taxpayers:

<u>Taxpayer</u>	<u>Principal Product or Services</u>	<u>2005 Taxable Value</u>	<u>% of 2005 Taxable Value</u>
Louisiana Pacific	Wood Products	\$ 5,410,200	3.49%
Michigan – DNR	State Government	2,779,800	1.80
Goldthorpe Enterprises	Motels and Land	1,742,700	1.13
Cloverland Electric Co-op	Utility	1,525,210	.99
Zellar's Inc.	Restaurant, Motel, & Trucking	1,204,800	.78
I.D. Dillon, Inc. (Days Inn)	Hotel	923,800	.60
Joseph Rahilly (Rahilly IGA)	Grocery	763,700	.49
Pickelman's	Restaurant, Bar and Gas Stations	619,900	.40
Heartwood Forestland Fund	Timber	608,200	.39
Barret Co.	Restaurant, Gift Shop, Mechanical Repair	528,400	.34
		<u>\$ 16,106,710</u>	<u>10.41</u>

Source: Luce County

NOTE 2 - TABLES: (Continued)

E. Constitutional Debt Limitations:

Article VII, Section 6 of the State Constitution states "No county shall incur any indebtedness which shall increase its total debt beyond 10% of its assessed valuation." The Bonds are included within this debt limitation.

Statement of Legal Debt Margin (as of December 31, 2005)

2005 State Equalized Valuation	\$ 257,757,066
Legal Debt Limit (10% of SEV)	25,775,707
Debt Outstanding	<u>963,166</u>

Margin of Additional Debt Which Could Legally be Incurred Subject to Debt Limit	<u>\$ 24,812,541</u>
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Percentage of Debt Outstanding to 2005 SEV	.37%
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Source: Municipal Advisory Council of Michigan and First of Michigan Corporation

F. Debt Statement: (as of December 31, 2005, including the notes)

<u>Direct Debt of County</u>	<u>Gross</u>	<u>Self-Supporting Of Portion Paid Directly by Benefitted Municipalities</u>	<u>Net</u>	<u>Net Debt</u>	
				<u>Per Capita</u>	<u>% of SEV</u>
GO Tax Notes	\$ 180,166	\$ 180,166	\$ -	\$ -	-\$
Sewer	343,000	343,000	-	-	-
Voted GO	190,000	-	190,000	27.05	.074
Building Authority	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>35.59</u>	<u>.097</u>
Total Direct debt	<u>\$ 963,166</u>	<u>\$ 523,166</u>	<u>440,000</u>	<u>62.64</u>	<u>.171%</u>

* No County credit pledged.

County Overlapping Debt (1)

Village	1,874,283	266.84	.727
Schools	1,026,900	146.20	.398
Townships	<u>143,717</u>	<u>20.46</u>	<u>.056</u>
Total Net Overlapping Debt	<u>3,044,900</u>	<u>433.50</u>	<u>1.181</u>
Total Direct and Net Overlapping Debt	<u>\$ 3,484,900</u>	<u>\$ 496.14</u>	<u>1.352%</u>

(1) Overlapping Debt is the portion of other public debt for which a County taxpayer is liable in addition to the Direct Debt of the County.

Source: Municipal Advisory Council of Michigan and First of Michigan Corporation

NOTE 2 - TABLES: (Continued)

G. Debt Service Schedule:

Refer to Note 8, Long-Term Debt in the Notes to Financial Statements.

H. Labor Contracts:

Of the County's employees, 25% are represented by labor organizations. The following table illustrates the various labor organizations which represent County employees, the number of members and part-time employees, and the expiration dates of the present contracts.

<u>Organization</u>	<u>Number of Employees as of December 31, 2005</u>	<u>Contract Expiration Date</u>
AFSCME Local #2430 (Sheriff's Department)	4	12/31/06
AFSCME Local #2430 (District Court)	2	12/31/06 *
AFSCME Local #2430 (General Employees)	10	12/31/06
Non-Union	47	N/A
Total	63	

Source: County of Luce

*Contract has an economic re-opener clause for 01/01/05 and 01/01/06.

I. Future Financing:

The County Treasurer anticipates the General Limited Obligation Tax Notes will be issued in the next six months to finance the purchase of delinquent taxes in the amount of \$375,000. The County Treasurer reports that there are no other bond or note financing planned to be issued by the County within the next six months.

J. Vacation and Sick Leave:

Refer to Note 8, Long-Term Debt in the Notes to Financial Statements.

K. Pension Plan:

Refer to Note 11, Employee Retirement and Benefit Systems in the Notes to Financial Statements.

NOTE 2 - TABLES: (Continued)

L. Installment Purchase and Lease Obligations:

Refer to Note 7, Leases in the Notes to Financial Statements.



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REPORT TO MANAGEMENT

Members of the Board
County of Luce, Michigan
Newberry, MI 49868

We have audited the basic financial statements of the County of Luce, Michigan for the year ended December 31, 2005, and have issued our reports thereon dated April 21, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Luce's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Luce's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Luce's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Luce's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on County of Luce's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Luce are described in Note 1 to the financial statements. We noted no transactions entered into by the County of Luce during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by Luce County that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Luce's financial statements our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of Luce's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We also noted other material matters involving compliance and internal control over financial reporting, which we have reported in a separate letter in accordance with *Government Auditing Standards*.

Fixed Assets (prior year)

The capital outlay accounts contain items that are less than the \$5,000 capitalization amount per the capitalization policy. Any items less than this amount should be recorded in another account. The items recorded in the capital outlay accounts should agree in total with the new additions to the fixed asset listing. We recommend recording equipment less than \$5,000 in a minor equipment account and repair and maintenance items in the applicable repair and maintenance accounts.

Status: Uncorrected.

Manual Accounting System - Luce County Ambulance (prior year)

The Luce County Ambulance Fund maintains a manual accounting system. The system is extremely cumbersome and time consuming to maintain as it requires manually posting entries to individual accounts receivable cards, a cash receipts log, a cash disbursements log and a general ledger. As most of the Ambulance fund's revenue is from Medicare, Medicaid and other third-party payers which involve numerous contractual adjustments, the accounting becomes complex. In 2005, the office secretary began using QuickBooks to account for ambulance operations. In the first phase, the secretary began use of the disbursements module. Further training is required to implement the receipts module which will allow the office secretary to maintain accounts receivable subsidiary records as well as an aging of accounts receivable listing.

Status: Uncorrected.

Ambulance Receivables (prior year)

The County was unable to provide an aging report for ambulance receivables, which is necessary to determine the proper uncollectible allowance. This is, in part, due to the fact that the Ambulance accounting of receivables is performed manually. This could be rectified by implementing the use of an aging report available with QuickBooks.

Status: Uncorrected.

Fixed Assets (prior year)

The fixed asset listing was not inclusive of all the fixed assets owned by the governmental entity. We recommend that an inventory be performed of all fixed assets to ensure that all items are accounted for in the entity's records, in accordance with the capitalization policy.

Status: Uncorrected.

Payroll (prior year)

During a review of payroll, the following exceptions were noted: two employees currently do not have the proper authorization on file for the deduction of health insurance, one employee does not have a current W-4 Form for the entire extra Federal Income Tax withheld, and one employee does not have any authorization for deduction on file for the cancer insurance. It is recommended that proper authorization be documented in each employee's personnel file.

Status: See current year comment.

Airport (prior year)

The airport does not maintain a receipting system. To improve documentation of monies received at the airport, it is recommended a duplicate receipting system be maintained by the airport – giving a copy of each receipt to the customer.

Status: See current year comment.

Ambulance Receivable

During our testing of ambulance receivables, it was noted that two subsequent payments received in 2006 were not credited to the individuals account. This problem could be rectified by using computer software to track accounts.

Accrued Interest Receivable

It was noted the interest rate used to calculate accrued interest receivable on delinquent taxes receivables was incorrect. Although the difference between the actual and calculated is immaterial to the County as a whole, it is recommended the County use the proper percentage when estimating accrued interest receivable.

Status: The Treasurer's office has corrected this and the proper interest rate will be used in 2006.

Airport

Detail for one receipt tested could not be provided as the airport does not maintain a proper receipting system. It is recommended detail be maintained that supports each receipt on the transmittal advice turned into the County Treasurer.

Accounts Receivable

It was noted during our testing of accounts receivable that fund 292 has a receivable of \$1,500, which has not been adjusted for several years. It is recommended the County determine if the amount is collectible and if not to adjust the account to zero.

Cash

The District Court Bond and Depository Bank account was not reconciled to the general ledger at the end of the year. It is recommended that each bank account be reconciled to the general ledger prior to proceeding to the next month.

Payroll

At the time of our review of payroll, the following exceptions were noted: two employees did not have to proper authorization on file for the deduction of health insurance and twelve of twenty five employees had Form W-4's that were from 2000 or older. Although these were corrected by the time of the audit report, it is recommended all personnel files be reviewed to ensure forms are current and proper deduction authorizations are on file.

Federal Programs

OMB Circular A-87 “Cost Principles for State, Local, and Tribal Governments” requires time spent working on Federal Programs be documented for co-funded and 100% funded employees. We recommend the County implement the required documentation for 2006.

Nonprofit Expenditures

The State of Michigan prohibits contributions to nonprofit organizations where there is no contract for specific services. The Department of Treasury has reviewed specific transactions at some local units of government related to 2% funds received from Tribal governments for distributions to nonprofit organizations. The Trust and Agency fund of the County indicates amounts were distributed to nonprofit organizations. The Board should implement procedures to prevent potential unlawful expenditures in this regard.

Summer Tax Levy

With the change in the funding of Revenue Sharing, various issues have surfaced. The State allowed Counties to place an amount equal to 1/3 of their 2004 levy for three years from the 2004, 2005, and 2006 levies in a Reserve fund each January. To replace this 1/3 taken from the operating levy the County is allowed to levy a summer tax beginning in July of 2005. 1/3 of the 2005 levy, 2/3 of the 2006 levy and 3/3 of the 2007 levy would be summer collections. This process of funding would allow the Counties to still fund Revenue Sharing and still receive 100% of their operating levies each year. One area of concern is that the summer collections are not completely received in cash at year end. Furthermore, what isn't collected is not received until tax settlement March 1 of the following year. This creates a cash flow shortage which can be alleviated by borrowing from the Revenue Sharing Reserve Fund. It also creates a revenue recognition issue in that the revenue is not collected within 60 days of year end. It is collected when tax settlement occurs in March. In summary, because the legislature intended that the summer levy would make the Counties whole, we recommend that tax revenue be recorded to account for the uncollected summer levy at year end.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the County of Luce required to implement the Statement for the year ended December 31, 2009. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the County will be required to pay for these benefits. Beginning in 2009, the County will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The County Board of Commissioners as well as County Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

This information is intended solely for the information and use of the Board of Commissioners, management, federal and state awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson Tackman & Company, PLC
Certified Public Accountants

April 21, 2006